

*IRS  
Historical  
Fact Book:  
A Chronology*

1646-1992



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# *IRS Historical Fact Book: A Chronology*

1646-1992



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Published as part of a continuing series of historical studies to preserve and disseminate the history of the Internal Revenue Service and tax administration in the United States.

Department of the Treasury  
Internal Revenue Service





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# Preface

The approach of April 15 each year brings a flood of questions into the IRS. Questions from taxpayers about how to fill out their tax forms. Questions from citizens on why we pay taxes and what the money is used for. Questions from the media on various aspects of our tax system to write about during this period of heightened interest. And on and on.

This volume is intended to provide IRS employees and the public with information on the evolution of our tax system, from the colonial era to the present. Presented in a chronological format, this book will be a basic reference source to answer questions about when things happened. The “why” of most events in the history of tax administration will be left to future publications of the IRS History and Archival Services Program.

The historic role of taxation in the formation and growth of the United States is a vast topic that encompasses areas ranging from tax policy to tax administration to processing technologies to personnel practices and a myriad of other subjects. This volume does not attempt to be comprehensive. Rather, the intent is to provide the user with a handy reference tool to respond to basic questions.

Many entries may appear incomplete or confusing. Rather than omitting such entries, they are included because they provide some insight into the evolution of our tax system. Sources on the history of taxation are somewhat scarce, making research in this field quite challenging. It is my hope that this volume will be a first step in expanding

research into the fascinating subject of tax administration as a defining aspect of our history.

Also, it must be noted that while many topics are covered in this volume, many are not. This is the first in what will be a continuously updated, expanded and improved “Fact Book.” With this in mind, users of this work are asked to call or write the IRS History and Archival Services Program with additions and corrections for the next edition.

To make this work as helpful as possible, two indexes are included. The first is a subject index to direct the user to topics of interest. The second is a date index, which can be used by those wanting to know what happened on “this day in history” in the IRS. The Introduction provides a brief historical overview of tax administration in the United States.



Shelley L. Davis  
*IRS Historian*





# Introduction

The history of tax administration is closely intertwined with the growth and evolution of the United States. Colonial protests against British policies, especially tax policies, helped spur the revolutionary movement. The Boston Tea Party is perhaps the best known event preceding the Revolutionary War which points to the growing radicalism with respect to tax policies.

After gaining independence, the Continental Congress was wary of the power of taxation. As a result, the Articles of Confederation did not grant the new national government the authority to tax its citizens. Money to finance federal government activities was obtained by requesting donations from the states.

By the time of the Constitutional Convention ten years later, it was obvious that the government simply could not be effective without at least some power to tax. As a result, Article 1, Section 8 of the Constitution gave the federal government the power to “lay and collect taxes... to pay the debts...” of the young country. It also specified that “duties and imposts shall be uniform throughout the United States.”

During the early years of the nation, most federal revenues were raised through tariff and customs duties and land sales. The first resort to internal taxation came in 1791 with the passage of a revenue act which placed an excise tax on distilled spirits and tobacco products.

Because most distilling activity was centered in rural areas, many farmers considered this excise tax an unfair burden placed upon them

at the expense of their wealthier fellow citizens living in urban areas such as New York and Philadelphia. Trouble arose almost immediately as the government struggled to enforce this excise tax.

Six months after passage of this excise tax, reports of a group of men disguised in women's clothing attacking a revenue collector in western Pennsylvania reached Washington. Protests culminated in mid-1794 with the Whiskey Rebellion, the first major challenge to the legitimacy of the young government. So concerned at this event, President Washington called out the militia in what became an historic demonstration of his resolve to sustain the authority of the nation and enforce its revenue laws.

Upon his election to the Presidency, Thomas Jefferson abolished all internal taxes. Once again, the country supported itself through land sales and customs revenues. The War of 1812 generated a need for additional revenues, resulting in the return of internal excise taxes for a short period. After the end of the war, the nation once again abolished all internal taxes.

It was not until the economic strains of the Civil War stretched the existing financial structure that the nation once again resorted to internal taxation. In addition to restoring many of the excise taxes from previous years, the Civil War brought the creation of the Office of the Commissioner of Internal Revenue in the Treasury Department and along with it, the nation's first income tax.

The income tax of the Civil War did not affect many citizens, nor did it raise much revenue. The most significant and long-term impact of this new revenue measure was that it created a precedent for future income tax measures. Most of the revenues needed for the Civil War came once again from excises on consumer products, primarily alcohol and tobacco. The income tax expired in 1871.

An attempt to revive the income tax came in the 1890s with the growth of the Populist movement. Although an income tax amendment attached to a tariff bill made its way through Congress in 1894, immediate legal challenges resulted in the Supreme Court declaring the income tax unconstitutional in 1895. The court ruled that some portions of the income tax enacted in 1894 violated the requirement of Article 1, section 8 of the Constitution requiring all taxes to be apportioned equally among the states.

It took another 14 years before another attempt to restore the income tax was made. This effort came in the form of a proposed constitutional amendment to resolve the conflicts with the requirement to apportion internal taxes equally among the states. Four years after it was introduced, Wyoming became the 36th state to ratify the Sixteenth Amendment to the Constitution in 1913, paving the way for a permanent system of income taxation in the United States.

Congress quickly enacted an income tax law, with the first returns (on the new Form 1040) due on March 1, 1914. Through the next 25 years, income tax rates remained at levels that affected only the very wealthy. Essentially,

payment of income taxes in the years preceding World War II was a sign of affluence. Some citizens proudly reported that they had paid their taxes as evidence of their financial success.

World War II brought fundamental changes to the income tax system in the United States. Although today many taxpayers assume that the annual ritual of filling out income tax forms has been around since the beginning of time, actually it was not until World War II that tax rates reached the average citizen. For example, while just over 350,000 income tax returns were filed in 1914, by 1945 the Bureau of Internal Revenue was processing 50,000,000 returns annually.

The successful expansion of the income tax base during the years of World War II was brought about by several factors. First, national pride and patriotism were at all time high levels and most citizens felt strongly about helping their government in whatever manner they could. Second, incomes were higher than in pre-war years, providing more disposable income and a tax bite that did not leave deep financial scars. Finally, the revenue demands of World War II necessitated new ways of raising government funds.

Before World War II, income taxes had been payable in quarterly installments to the local Collector's Office. The expansion of the tax base during the war years found many new taxpayers unprepared to pay a large tax bill—they simply had not put aside enough money to cover their obligation. This situation led to the first widespread use of the “pay-as-you-go” system, or withholding, as we know it today.

Following World War II, the American public became accustomed to the annual ritual of income taxes. The filing date was pushed back from March 15 to April 15 in the mid-1950s to allow taxpayers more time to fill out the increasingly complicated forms as well as to give the overburdened IRS more time to process the forms.

In 1952, after a series of politically damaging incidents of tax evasion and bribery among its own employees, the Bureau of Internal Revenue was reorganized under a plan put forward by President Truman, with the approval of Congress. The reorganization decentralized many functions to new district offices which replaced the collector's offices. Civil service directors were appointed to replace the politically appointed collectors of the Bureau of Internal Revenue. Not long after, the Bureau was renamed the Internal Revenue Service.

By the early 1960s, the increasing demands of processing more and more tax returns led the IRS to develop and implement a series of centralized processing facilities. Within ten years, a total of ten service centers were scattered around the country, equipped with banks of computer terminals and other data processing equipment to process the growing numbers of tax returns.

In the 1980s, the IRS looked to the future to take advantage of the vast technological leaps of the past decade. In 1986, the first electronically filed return was processed, eliminating the need for some taxpayers to mail a paper tax return to a service center. Four years later, electronic filing was available nationwide. The decade of the 1990s will be one of discovering

and implementing new techniques and technologies into the tax processing system as well as reemphasizing the "service" in the IRS name.







*Tench Coxe, first Commissioner of the Revenue*

*1646-1799*

RELUCTANCE TURNS TO REALITY:  
THE YOUNG NATION ESTABLISHES  
ITS OWN SYSTEM OF TAXATION



Although born as a nation resisting what were believed to be unfair policies of taxation forced upon the colonies by the British Empire, the United States quickly realized that it needed some centralized way to pay its debts and finance its expanding operations. The years between the birth of the new nation and the dawning of the nineteenth century saw Congress replace the weak Articles of Confederation with the more powerful Constitution which provided the authority for the creation of a system of internal taxation.



1646 Some colonists in New England paid occupation or “faculty” taxes as early as this year. This tax is credited as being the ancestor of the modern income tax. Faculty taxes were levied on certain occupations by the British empire, requiring “every laborer, artificer, and handicraftsman” to pay a portion of his earnings to the taxing authority. Residents of Massachusetts Bay Colony were subject to taxes on personal and real estates as well as the “returns and gains” of tradesmen, artificers, and handicraftsmen.

1649 The principle of taxation established by the New Plymouth and Massachusetts Bay colonies was soon adopted by other colonies. This year, New Haven introduced an act taxing the profits of laborers, tradespeople, and others.

1650 Connecticut passed a faculty tax on all “manual persons and artists” in addition to a general property tax.

SEPTEMBER 1, 1673 The Navigation Act of 1673 went into effect to collect customs duties in colonial ports.

1673 Rhode Island established that taxes were to be assessed according to “equity in estate and strength,” not only according to the property but also in proportion to the “faculty” or the “profits and gains” of the colonists.

1684 New Jersey became the only colony outside New England to levy a tax. This year it taxed the profits on traders, merchants, artificers, inn

keepers, and other profitably employed non-real estate owners. Also in this year, the first excise tax on liquor went into effect in Pennsylvania.

1699 In an attempt to prevent colonial competition with the English woolen industry, the Wool Act prohibited the exportation of wool products from the colonies.

1732 The Hat Act required a seven-year apprenticeship for all colonial hatmakers and prevented the exportation of hats from one colony to another.

1733 The Molasses Act imposed prohibitive duties on sugar, rum, and molasses imported to the colonies from the French, Spanish, and Dutch West Indies. This act sought to force the purchase of British molasses.

1736 The British were unable to enforce the Molasses Act as colonial merchants continued to import sugar, rum, and molasses from other islands in the West Indies.

1750 & 1757 The Iron Acts prohibited the colonial manufacture of finished iron products.

1761 Colonial leader James Otis of Massachusetts argued against the British Writs of Assistance (search warrants), claiming that they were a violation of the natural rights of the colonists. In his arguments, Otis stated that everyone should be “free from all taxes but what he consents to in person or by his representative,” which later was translated into





the rallying cry for rebelling colonists in the American Revolution.

**1764** The British Parliament enacted the Sugar Act, extending the Molasses Act of 1733, in an attempt to raise money to pay the British debt from the French and Indian War. Although the Sugar Act reduced the duty on molasses from 6 pence to 3 pence per gallon, it increased duties on a wide range of imported goods, including coffee, sugar, and wines.

**1764** The Currency Act required that the sugar tax be paid in specie (gold and silver) and prohibited colonists from issuing money.

**NOVEMBER 1, 1765** The Stamp Act required placing tax stamps on virtually every kind of printed material including newspapers, advertisements, legal documents, bills of lading, notes, playing cards, and bonds. This was the first direct internal tax imposed on the colonies by the British Parliament. The colonists protested this as taxation without representation and an infringement on their liberties. Ultimately, the Stamp Act led to the Colonial Stamp Act Congress and a resolution voicing the colonial protest that "taxation without representation is tyranny." The law affected the most articulate elements in the colonies, lawyers and newspapermen, who helped organize general protests.

**MARCH 18, 1766** After vocal protests and economic boycotts from the colonists left their impact, Parliament repealed the Stamp Act, but

on the same day passed the Declaratory Act which asserted full authority over the American colonists "in all areas whatsoever."

**JUNE 29, 1767** The Townshend Acts, called "England's most fateful decision," established a Board of Customs Commissioners in Boston and imposed import duties on glass, lead, oil, paints, paper, and tea. Colonists responded by following a nonimportation policy which in effect served as an embargo against British goods.

**1767** An argument against taxation by Parliament appeared in John Dickinson's "Letters from a Farmer in Pennsylvania."

**1768** Colonial assemblies urged opposition to the Townshend Acts.

**JULY 19, 1769** The British sloop "Liberty" was scuttled while trying to enforce royal revenue laws.

**JANUARY 1770** The new Prime Minister, Lord Frederick Norton, called for repeal of the Townshend Acts, excluding those on tea.

**MARCH 5, 1770** Colonists in Boston clashed with British troops in protests against the Stamp Act and its effects, resulting in five casualties. This event became known as the "Boston Massacre." On this same day Parliament repealed the Townshend Acts, but retained the tax on tea. In response, colonists ended the embargo against British goods.





JUNE 9, 1772 Rhode Island colonists attacked and burned the armed British revenue schooner "Gaspee" while it attempted to enforce revenue laws in Narragansett Bay.

1773 Parliament passed the Tea Act which granted the East India Company a monopoly on the sale of tea to the colonies in an attempt to bolster the finances of the ailing company and to reaffirm its right to tax the colonies. This Act threatened the economic status of the colonial tea merchants and precipitated the Boston Tea Party. Shipments of tea landed at Charleston, but were refused at New York and Philadelphia.

DECEMBER 16, 1773 A group of about 150 patriots, disguised as Indians and calling themselves the Sons of Liberty, protested the Tea Act by boarding three British merchant ships and dumping 342 large chests of tea into Boston Harbor. When Britain retaliated with new coercive laws, they only widened the split that eventually led to the American Revolution.

SPRING 1774 Parliament passed the "Intolerable Acts" to punish the Massachusetts colonists for the Boston Tea Party. The port of Boston was closed until restitution was made to the East India Company for the destroyed tea. The quartering of British troops in occupied dwellings was legalized throughout the colonies and the colonists were deprived of many chartered rights.

AUGUST 25, 1774 A North Carolina convention resolved to boycott British goods.

SEPTEMBER 5-OCTOBER 26, 1774 The First Continental Congress assembled in Philadelphia with representatives from all colonies except Georgia.

APRIL 1775 Fighting began at Lexington and Concord.

MAY 10, 1775 The second Continental Congress convened in Philadelphia, appointing George Washington as Commander-in-Chief of the Continental Army.

NOVEMBER 6, 1775 The Continental Congress appointed a committee to estimate the public debt.

JULY 4, 1776 The formal severance of ties with England came when the Continental Congress approved the Declaration of Independence.

SEPTEMBER 10, 1777 Congress appointed a committee to prepare a recommendation that the individual states commence taxation.

SEPTEMBER 27, 1777 Congress resolved that the Treasurer should move to York, Pennsylvania.

NOVEMBER 15, 1777 Congress adopted the Articles of Confederation and submitted them to the states for ratification. This first attempt at self-government by the United States did not give the new Congress the power to levy taxes. Money to finance the government was obtained by making requests for







donations from the states of the Confederation.

1777 Massachusetts authorized a faculty tax which was in effect an income tax.

SEPTEMBER 19, 1778 The Committee on Finance of the Continental Congress reported the first national budget.

MARCH 1, 1781 The Articles of Confederation were ratified.

1782 Citizens at a town meeting in Worcester, Massachusetts, opposed a state liquor tax on the premise that liquor was necessary for the morale of farm workers.

SEPTEMBER 3, 1783 The Treaty of Paris ended the American Revolution and Britain recognized American independence.

JANUARY-FEBRUARY 1787 Daniel Shay, a destitute Massachusetts farmer and Revolutionary War veteran, led an uprising of 1,200 men to protest the Massachusetts legislature's failure to enact laws to allow a moratorium from debt collection or the use of depreciated paper currency as repayment of debts or taxes. What became known as Shay's Rebellion failed and confirmed the judgement of George Washington and other leaders that a stronger government than that provided under the Articles of Confederation was needed.

FEBRUARY 21, 1787 Congress endorsed Alexander Hamilton's plan for a constitutional convention to be

held in Philadelphia to revise the Articles of Confederation.

1787 By the time of the Constitutional Convention it was apparent that the new government could not be effective without the power to tax. The Constitutional Convention included Article 1, Section 8 in the new Constitution, stating, "...the Congress shall have the power to lay and collect taxes, duties, imposts, and excesses, to pay the debts and provide for the common defense and the general welfare of the United States." This section also stated that, "...duties and imposts shall be uniform throughout the United States." The limitations placed on the powers of taxation in the Constitution were the result of the colonists' previous unpleasant experiences with taxes.

MARCH 4, 1789 The First Congress under the Constitution convened.

APRIL 30, 1789 George Washington took the presidential oath at Federal Hall on Wall Street in New York City.

JULY 4, 1789 The first tariff act passed by the new Congress imposed duties on "Goods, Wares, and Merchandises," including more than 30 kinds of commodities. A duty of six cents per pound was placed on imported manufactured tobacco.

JULY 20, 1789 Congress passed the second revenue measure of the new national government, imposing duties on the tonnage of all ships or vessels entering the United States.





JULY 24, 1789 The Committee on Ways and Means originated as a select committee responsible for economic issues. It was discharged two months later in favor of the new executive Department of the Treasury under Alexander Hamilton. After Hamilton left office, his political opponents reestablished the Committee on Ways and Means.

JULY 31, 1789 The Customs Service was established, thereby becoming the oldest agency in the federal system. The mission of this new organization was to raise revenue and protect domestic manufacturers. This date also saw the enactment of provisions for collecting the duties imposed by the revenue acts passed earlier in this month. Customs districts and positions for customs collectors were established.

SEPTEMBER 2, 1789 The Department of the Treasury was established with Alexander Hamilton appointed as the first Secretary of the Treasury.

SEPTEMBER 11, 1789 Tench Coxe of Pennsylvania assumed the duties of Assistant to the Secretary of the Treasury. This position was redesignated "Commissioner of the Revenue" in 1792.

NOVEMBER 13, 1789 In a letter to Jean Baptiste LeRoy, Benjamin Franklin wrote, "Mais dans ce monde, il n'y a rien d'assuré que la mort et les impôts" (Nothing in life is certain but death and taxes.)

JANUARY 4, 1790 The First Federal Congress met with the major issue before it being funding the Revolutionary War debt of approximately \$80 million.

JANUARY 9, 1790 Alexander Hamilton put forth the first in a series of reports on the nation's economy titled, "Report on Public Credit."

MAY 5, 1790 A bill came before Congress to place an excise on whiskey and other distilled spirits in the United States.

JUNE 21, 1790 Congress defeated the proposed excise bill to levy duties on distilled spirits by a vote of 35-23.

DECEMBER 1790 Secretary of the Treasury Alexander Hamilton renewed the request for a whiskey excise in his report on public credit.

1790 Congress increased tariff rates to raise additional revenue. Between 1794 and 1816, Congress passed some 25 tariff acts.

1790 The Revenue Marine Service was established to aid in the collection of revenue.

JANUARY 22, 1791 The Pennsylvania Assembly instructed the state's senators to oppose a national excise. The legislature resolved that "any proceeding on the part of the United States tending to the collection of revenue by means of excise [is] established on principles subversive of peace, liberty, and the rights of citizens."





**MARCH 3, 1791** The Revenue Act of 1791 became law. This act was the first resort to internal taxation in the United States and it imposed excise duties on distilled spirits (the famed “whiskey tax”) and tobacco products. The act provided that the duties on distilled spirits were to be paid before removing them from the distillery.

The act provided for “supervisors of revenue” whose job was to collect levies from both commercial distilleries and private still owners. The act also called for the establishment of 14 revenue districts, one in each state, to be headed by “collectors.” The collectors could subdivide each district into “surveys of inspection,” which would function under “inspectors of revenue.”

Under this act, the President was authorized to appoint a supervisor to each district and as many inspectors to each survey as deemed necessary. The supervisors worked under the supervision of the Assistant Secretary of the Treasury.

This revenue act was based on a proposal by Secretary of the Treasury Alexander Hamilton and delegated the power to “collect” to the Treasury Department, a power held ever since. The intent of this act was to provide revenues to pay the debts incurred by the federal government’s assumption of the states’ debts following the Revolutionary War as well as to avoid the need for a direct tax on lands.

**SEPTEMBER 6, 1791** Sixteen men assaulted excise collector Robert Johnson in western Pennsylvania. Johnson was the tax collector for Washington and Allegheny counties in Pennsylvania and as such, was

responsible for collecting the new excise tax on whiskey. Disguised in women’s clothes, the attackers cut off Johnson’s hair, tarred and feathered him, stole his horse, and left him in the forest in a “mortifying and painful situation,” according to a report by Secretary of the Treasury Alexander Hamilton.

**MAY 8, 1792** Congress abolished the Office of the Assistant to the Secretary of the Treasury and required that “instead thereof there be an officer in the Department of the Treasury to be... Commissioner of the Revenue who shall be charged with superintending the collection of other revenues.” The compensation for the Commissioner was set at \$1,900 per year. Tench Coxe of Pennsylvania assumed these duties on this day (he had held the position of Assistant to the Secretary of the Treasury).

**1792** Tax receipts totalled \$208,943 this fiscal year— less than one-tenth of the amount collected through customs duties. The cost of collecting this money was about 20 percent of the total revenue collection.

**1792** The duty on distilled spirits was reduced and the importation of spirits from foreign ports was prohibited except in casks of 90 or more gallons. The intent was to encourage the manufacture of distilled spirits in the United States and to increase the revenue.

**MARCH 26, 1794** A 15 member Ways and Means Committee was appointed in the House of Representatives, consisting of one member





from each state and chaired by William Loughton Smith of South Carolina.

**MAY 31, 1794** The federal district court in Pennsylvania issued process against 75 distillers in western Pennsylvania who had not paid their taxes. The processes were not arrest warrants, but summonses which required the defendants to appear in court to show cause why an arrest warrant for failure to pay the whiskey tax should not be issued.

**JUNE 5, 1794** The Federalists extended the internal revenue system through an act taxing carriages, sales of certain liquors, the manufacture of snuff and refining of sugar, and auction sales. This act laid duties on the issuance of licenses to retail dealers in wines and in foreign distilled liquors.

**JUNE 9, 1794** Congress passed a law requiring auctioneers to retain the required duties from the proceeds of sales at auctions, making the auctioneer the first withholding agent in the history of our tax system. The auctioneer was allowed to keep a commission of one percent on the duties retained "for his trouble in and about the same."

**JULY 15, 1794** General John Neville, inspector of the revenue for the tax survey encompassing western Pennsylvania, accompanied by U.S. Marshal David Lenox, attempted to serve summons on whiskey tax evaders in Allegheny County. Shortly before noon, the two men arrived at William Miller's farm to serve Miller with a sum-

mons. While serving the summons, a group of 30 to 40 men ran towards the federal officers and fired at them from a distance. Neville and Lenox managed to escape.

**JULY 16, 1794** At daybreak, about 50 men armed with rifles and clubs marched to John Neville's house and demanded his resignation. By the end of the day, Neville had killed five of the rebels. The Whiskey Rebellion had begun. In response, President Washington called out the militia to put down the insurrection in what became an historic demonstration of the government's early determination to enforce its revenue laws.

**JULY 17, 1794** After much debate, the whiskey tax rebels decided to return to Neville's home to force him to resign as inspector of the revenue. About 500 armed men gathered at Couch's Fort under the leadership of James McFarlane. After taking five prisoners, the rebels burned Neville's home and looted his possessions including his wine cellar.

**AUGUST 7, 1794** A commission was set up under Attorney General William Bradford to negotiate peace with the whiskey rebels in western Pennsylvania. At the same time, President Washington issued a proclamation calling for an end to the insurrection and ordered the governors of Pennsylvania, New Jersey, Maryland, and Virginia to muster 13,000 militiamen to be prepared to march into Pennsylvania.







**SEPTEMBER 24, 1794** Because many of those involved in the Whiskey Rebellion refused to sign an oath of allegiance to the government, Washington ordered the militia to suppress the rebellion. He placed the militia under the command of the Governor of Virginia and Revolutionary War hero, Lighthorse Harry Lee. Secretary of the Treasury Alexander Hamilton served as second in command, at his own request. Washington himself marched with the militia as far as Bedford, Pennsylvania—the only time in American history that a president has taken the field at the head of his army.

**SEPTEMBER 30, 1794-MARCH 3, 1795** A tax on the manufacture of snuff was in effect during this period.

**NOVEMBER 13, 1794** Known as the Dismal Night, most of the suspects in the Whiskey Rebellion were arrested on this night. Ensuing trials dragged on for a year before all but two of the defendants were acquitted. Although the two guilty men were sentenced to hang, President Washington eventually pardoned them. The cost of suppressing the Whiskey Rebellion to the federal government was \$1.5 million.

**JANUARY 31, 1795** Alexander Hamilton resigned as Secretary of the Treasury.

**MAY 28, 1796** Congress passed an act continuing the tax on carriages and providing that these duties were to be collected and accounted for by and under the immediate direction of the supervisors and inspectors of

the revenue. This act provided a penalty of 25 percent of the tax owed to be paid upon demand of the revenue officer.

**1796** The Supreme Court upheld the tax on carriages in the case of *Hylton v. United States* by determining that the tax was not a direct tax in the Constitutional sense of the term. The taxpayer (Hylton) had insisted that the tax was unconstitutional because it was a direct tax and not apportioned according to the population as required by the Constitution.

The four Justices agreed with Alexander Hamilton, counsel for the government, that the direct taxes contemplated by the Constitution included only land and capitation taxes and possibly a general tax on all personal property. This was the basis on which all similar cases were decided by the Supreme Court until 1895.

**MARCH 3, 1796-JUNE 1, 1796** A tax on snuff mills was in effect during this period.

**JULY 6, 1797** Stamp taxes as a revenue measure began this year through the passage of the Stamp Act which imposed duties on legal transactions, including a duty on receipts for legacies and probates of wills. This was also the first step in the development of a federal inheritance tax.

**DECEMBER 15, 1797** Implementation of the stamp taxes imposed by the act of July 1797 was postponed for six months.





JANUARY 16, 1798 Tench Coxe left the Office of the Commissioner of the Revenue in the Department of the Treasury. At this time, the total office force consisted of four men: Doyle Sweeny, principal clerk; Ezekiel Forman, accountant; John Mease and Peter Footman.

LATE JANUARY 1798 William Miller, Jr., became the second Commissioner of the Revenue.

MARCH 19, 1798 An appropriation act provided \$5,525 for the compensation of the Commissioner of the Revenue, his clerks, and persons employed in his office. An additional \$400 was provided for stationary and administrative expenses.

JULY 9, 1798 Congress imposed a direct tax on real property. This act set up the machinery for the valuation of lands and dwellings and the enumeration of slaves with the tax apportioned to the states in specified amounts. Revenue commissioners divided their states into assessment districts, appointing supervisors of the revenue and making regulations. In addition, supervisors of the revenue appointed surveyors of the revenue. Assessment lists prepared by assessors were turned over to the surveyors who enumerated the slaves, kept a record of new buildings, computed the tax, and delivered a statement of taxes due to the "persons who may be appointed to receive the same."

JULY 14, 1798 The first direct tax imposed by the federal government took effect. The tax of two million dollars applied to dwelling houses,

lands, and slaves between the ages of 12 and 50. The tax on houses was progressive. The tax on slaves was 50 cents. The tax on lands was assessed on an evaluation of each lot at a rate high enough to raise the two million dollars.

JULY 16, 1798 Collectors of internal revenue were officially authorized by an act this date. The collectors were appointed by and subordinate to the supervisors. They were fiscal agents and did not have powers associated with collectors in later years.

MARCH 1799 An auctioneer named John Fries incited a small rebellion in eastern Pennsylvania against the federal tax on houses. After U.S. Marshals arrested several men who had interfered with tax assessors, Fries organized an armed band to rescue the prisoners. President John Adams, like his predecessor, could not allow the challenge to federal authority to go unanswered and the militia marched again on Pennsylvania.

1799 The first income tax in the United Kingdom was introduced by Prime Minister William Pitt to provide revenue to finance the Napoleonic Wars. The rate was two shillings per pound (10 percent) on income above 200 pounds. The income tax was intended to be a temporary war measure. After Napoleon's defeat at Waterloo in 1815, the income tax expired and was not reintroduced until 1842.





*Excise taxes on manufactured goods were often paid through the use of revenue stamps such as this one.*

## 1800-1859

### TO TAX OR NOT TO TAX: MEETING THE NEEDS OF EXPANSION



During these years the nation experimented with various methods of raising revenue, ranging from excise taxes on manufactured goods to land sales and customs duties. For most of these years the United States imposed no internal taxes, resorting to this form of taxation only when the demands of the War of 1812 created a need for greater revenues. During the war years, Secretary of the Treasury Alexander Dallas proposed establishing a permanent system of raising internal revenue. A century would pass before this concept became reality.



APRIL 23, 1800 The Treasury Department established the Office of Superintendent of Stamps to issue revenue stamps.

1800 The tax on snuff mills was repealed.

MARCH 3, 1801 The Appropriation Act for this year provided \$6,253.06 for compensation of the Commissioner of the Revenue and his staff and \$900 for administrative expenses.

1801 In his annual message to Congress, President Thomas Jefferson proposed the immediate abolition of excise taxes.

APRIL 6, 1802 Congress repealed the first internal revenue laws effective June 30, 1802. This action also resulted in the abolishment of the position of Commissioner of the Revenue and all offices having to do with the collection of internal taxes. This marked the end of internal taxation in the United States until 1813. The Commissioner and Supervisors of the Revenue were to continue in office until all outstanding taxes had been collected.

APRIL 30, 1802 The Office of the Superintendent of Stamps was discontinued and its close-out duties were transferred to the Commissioner of the Revenue.

FEBRUARY 20, 1804 The Appropriation Act passed on this date does not mention the Commissioner of the Revenue, confirming the discontinuance of this function.

1807 Congress enacted the Embargo Act of 1807. In reprisal against trade restrictions placed on U.S. ships by England and France during the Napoleonic wars, Jefferson called for an embargo that prohibited shipment of American raw materials and finished products to the European belligerents. Because of its drain on American shipping profits, Congress repealed this controversial trade measure in 1809. The Embargo Act was replaced with the Nonintercourse Act, which prohibited trade only with England.

MARCH 4, 1812 Congress passed a new tax bill which increased customs duties and reimposed a tax on salt, with the provision that it would not go into effect until after a declaration of war.

MAY 1813 President Madison advised Congress to adopt a well-defined system of internal revenue.

JULY 22, 1813 Congress passed an act to facilitate the collection of the revenue, dealing with organizational and procedural matters. This act established a system of "collection districts" for the purpose of assessing and collecting direct taxes. Each collection district was to be staffed with a collector and a principal assessor and subdivided into assessment districts.

JULY 24, 1813 The effects of the War of 1812 prompted Congress to resort to internal taxation once again. The revenue act passed on this day provided for a direct tax on refined sugar, carriages, distillers, and auction sales. The Office of the Com-





missioner of the Revenue was revived in the Department of the Treasury. The Secretary of the Treasury was authorized to transfer the collection of customs duties to the Commissioner of the Revenue from the Comptroller. This act also established the collectors as the responsible agents to grant licenses for distilling.

AUGUST 2, 1813 Congress passed an act providing for a direct tax of three million dollars to be collected on "the value of all lands, lots of ground with their improvements, dwelling-houses, and slaves," a tax on licenses of retail liquor dealers and retailers of foreign merchandise, and a stamp tax on bank notes and legal instruments.

MARCH 24, 1814 An appropriation act passed on this date granted \$9,410 in compensation for the Commissioner and his clerks.

APRIL 18, 1814 An act allowed deputy collectors to assume the duties of the collector in case of illness, death, removal, or resignation.

AUGUST 24, 1814 The British burned the Treasury building in Washington, D.C. and dined by the light of the fire across the street in Rhodes Tavern.

SEPTEMBER 1814 Congress reconvened in a special session to replenish an exhausted treasury and renovate public credit.

NOVEMBER 22, 1814 The Commissioner was authorized to designate a clerk to assist him in signing licenses.

DECEMBER 15, 1814 Graduated duties on carriages and harnesses were placed on a valuation basis. With this change, the assessor displaced the collector as the principal tax determinator.

DECEMBER 21, 1814 Additional duties were laid on distilled spirits, auction sales, licenses to retail sellers of wines and spiritous liquors, and foreign merchandise.

1814 In a report to Congress, Secretary of the Treasury Alexander Dallas advocated establishment of a system of permanent annual revenue to be raised by internal taxes, in addition to external revenue already derived from customs duties. This marked the beginning of nearly a century of debate between advocates of internal taxation and those in favor of financing the needs of the country solely through external revenue. The debate continued until the ratification of the 16th Amendment and imposition of a new income tax in 1913. If the War of 1812 had not ended, Congress might have enacted such a proposal.

JANUARY 9, 1815 A direct tax of six million dollars was "annually laid upon the United States," on houses, lands, and slaves. A board of principal assessors was created and given the duty of equalizing and proportioning valuations among the several counties or state districts.

JANUARY 18, 1815 "Sales taxes" on manufactured articles, tobacco, cigars, and snuff made for sale in the United States, household furniture, and gold and silver watches were







levied. These duties were levied on a valuation basis with the assistant and principal assessors responsible for determining the amount of tax.

JANUARY 21, 1815 Secretary of the Treasury Alexander Dallas recommended the adoption of an inheritance tax and an income tax but the Ways and Means Committee rejected this idea.

FEBRUARY 27, 1815 Congress extended the sales taxes to cover gold, silver-plated ware, and jewelry.

MARCH 3, 1815 An administrative act strengthened the authority of collectors to bring suits without delay and to prosecute for breaches of revenue. Collectors were granted authority to search and seize for violations of the tax laws. This act also specified that the collector had a duty to make an annual statement, listing in alphabetical order the names of all persons who paid to him or his deputies any tax, with an aggregate amount listed next to the name, to make 100 copies of this list, and distribute it to the Commissioner, the town clerk, and others. A copy of this list was to be posted at the local court house for public inspection.

DECEMBER 6, 1815 Secretary of the Treasury Alexander Dallas stated, "The establishment of a revenue system, which shall not be exclusively dependent upon the supplies of foreign commerce, appears, at this juncture, to claim particular attention," in his annual report on finances.

FEBRUARY 2, 1816 With the end of the War of 1812, Congress abolished taxes on manufactured articles, cigars, cigarettes, snuff, gold, silver-plated ware, and jewelry.

APRIL 27, 1816 The Tariff of 1816 was the first protectionist tariff designed to protect domestic industry rather than raise revenue. It placed an average duty of 25 percent on imports that competed with American-made goods and provided for yearly reductions until a uniform 20 percent rate was reached in 1819.

DECEMBER 1817 President Monroe called for the repeal of all internal taxes in his first message to Congress.

DECEMBER 23, 1817 Congress abolished all remaining internal revenue taxes effective December 31, in response to popular pressure against their retention. From this point until the outbreak of the Civil War, the federal government made no use of excise, stamp, income, inheritance, or direct property taxes. The federal government was supported by revenue from import duties and proceeds from sales of public lands. The Office of the Commissioner of the Revenue was again abolished and the offices of collectors and assessors were to be eliminated after outstanding taxes had been collected.

JANUARY 28, 1818 George Sewell Boutwell, destined to become the first Commissioner of Internal Revenue, was born in Brookline, Massachusetts.







APRIL 20, 1818 Congress officially authorized the President to abolish all existing offices of collectors of the direct tax and internal duties.

1818 The Tariff of 1816 was amended to extend the duty on cotton and woolen goods through 1826. Duties on iron and certain manufactures were also increased.

MARCH 3, 1819 The Appropriation Act of this year still included a provision for the Commissioner and the clerks in his office.

1819 The *McCulloch v. Maryland* Supreme Court decision involved a Maryland state tax on the Second Bank of the United States. Chief Justice John Marshall declared, "The power to tax involves the power to destroy" in determining that the state could not have that power over federal government.

APRIL 11, 1820 The Appropriation Act of this year made no provision for the Commissioner of the Revenue, but did include \$3,700 for three clerks to "complete the duties of the Commissioner of the Revenue."

MAY 15, 1820 As part of an "Act providing for the better organization of the Treasury Department," the President was authorized to designate an officer as "Agent of the Treasury" with part of his duties being the recovery of money or property, including taxes, in the name and for the use of the United States. This position was the ancestor of the Solicitor or Chief Counsel of the Treasury Department.

APRIL 2, 1824 The Appropriation Act of this year transferred the clerks completing the duties of the Commissioner of the Revenue to the Fifth Auditor's Office in the Treasury Department.

1824 The Tariff of 1824 increased duties on wool, cotton, iron products and hemp.

1826 Pennsylvania levied a tax on inheritances, the earliest predecessor of the modern inheritance tax.

1828 The protectionist Tariff of 1828 increased tariffs on manufactured goods under what was called the "tariff of abominations." This provoked a revolt in South Carolina and sparked a nullification crisis as state officials asserted their right to nullify acts of Congress they viewed as unconstitutional. Andrew Jackson's supporters designed this tariff to embarrass President John Adams by boosting tariff duties to unreasonably high levels on raw materials and ship building supplies needed by New England manufacturers and merchants. Northern mercantile interests were in conflict with the Southern agricultural economy dependent on foreign markets.

MAY 29, 1830 The Office of the Solicitor of the Treasury was established and charged with responsibilities related to the collection of outstanding direct and indirect duties.

MARCH 2, 1831 The beginning of the authority to "compromise" taxes is found in an "Act for the relief of certain insolvent debtors of the United States," passed on this date.





JULY 14, 1832 President Jackson signed the Tariff of 1832 which reduced tariff levels to about the levels of 1824. John C. Calhoun and other southern spokesmen took an increasingly intransigent position against protective tariffs, viewing them as undermining the Southern economy. Calhoun eventually sparked the nullification crisis when South Carolina declared the tariffs of 1828 and 1832 to be null and void in that state.

JUNE 10, 1833 The office of Solicitor of the Treasury as established in 1830 was abolished by executive order and replaced by a new office of Solicitor of the Treasury with revised responsibilities for only "the legal work of the Treasury Department now performed by [the Justice] Department."

1833 Henry Clay of Kentucky helped produce the compromise tariff of 1833 by proposing that tariffs be gradually reduced until 1842 when they would be at about the same level as the tariffs of 1816.

1834 The national debt was retired.

1836 Land sales accounted for nearly half of all federal revenues.

JUNE 1836 Congress passed a bill providing that the money in the Treasury on January 1, 1837 in excess of \$5 million should be deposited with the various states in proportion to their respective representation in Congress. Under this law the Treasury paid out over \$28 million to the states before the 1837 panic forced it to halt this activity.

JULY 1836 President Jackson ordered Treasury Secretary Levi Woodbury to issue a circular that allowed only gold and silver to be accepted in payment for federal lands after August 15.

1836 Construction began on the Treasury Building.

MAY 1837 In the Panic of 1837 New York banks suspended specie payments as the second worst depression in United States' history began (1837-1843). Secretary of the Treasury Roger Taney announced that federal funds would no longer be deposited in the Second Bank of the United States in an effort to carry out Jackson's opposition to the Bank. The destruction of the Second Bank gave a free hand to various paper money schemes, fueling the inflation preceding the Panic of 1837. This depression stimulated a new wave of protectionism as American manufacturers blamed high unemployment on cheap imported goods.

OCTOBER 2, 1837 Congress suspended payment of surplus revenues to the states.

MARCH 3, 1839 The common law right to sue a tax collector for the refund of wrongfully collected taxes was first recognized by the Supreme Court in the case of *Elliott v. Swartout* this year. As a result, collectors routinely refrained from paying taxes over to the Treasury when collected under protest. Congress enacted legislation on this date requiring the payment of taxes into the Treasury regardless of whether





or not they were collected under protest. The Secretary of the Treasury was required to refund taxes paid under protest when such taxes were shown to be excessive.

1840 Pennsylvania became the first state to enact a state income tax. Tax rates were so low that the revenue raised from this tax was insignificant.

1841 Maryland adopted an income tax, exempting incomes under \$500 and those derived from taxed property. Collection of the tax was so lax that by 1850 the law was virtually repealed.

AUGUST 26, 1842 The Treasury Department established a fiscal year running from July 1 to June 30.

1842 The Tariff of 1842 invoked substantially higher duties.

1842 The first segment of the Treasury Building was completed.

1843 Virginia passed an income tax, taxing one percent of salaries and professional income over \$400 per year. The tax also included a 2½ percent tax on all interest or profit from money, bonds, notes, or certificates of debt. Alabama also instituted taxes on professional and business income this year.

JANUARY 21, 1845 The Supreme Court held in the case of *Cary v. Curtis* that if a collector was not free to retain protested taxes he could not be held personally accountable for the amount. This resulted in serious questions as to whether any

judicial remedy was recognized for reviewing of the legitimacy of tax collections.

FEBRUARY 26, 1845 Congress in effect overruled the Supreme Court decision of *Cary v. Curtis* by providing that nothing in the legislation should be construed to eliminate the right to sue collectors for duties paid under protest. The legislation also provided that to preserve the action, the taxpayer's written protest setting forth his objections had to accompany or precede the disputed tax payment.

1845 Florida enacted an income tax, but had such little success that ten years later it abolished the entire system.

1845 Maryland instituted an inheritance tax.

1846 The Tariff of 1846, known as the Walker Tariff, significantly lowered duties. This marked the closest the United States came to free trade in the period before the Civil War.

1847 North Carolina levied an inheritance tax.

1848 Representative David Wilmot of Pennsylvania proposed that five million dollars be raised annually through a tax on personal and other property, stocks, and money. This tax would finance the Mexican War and pay off the public debt. Since this would have taxed the slave property in the South and financial investments in the North, the measure was defeated 139-47.





1848 Alabama levied an inheritance tax.

1849 North Carolina enacted an income tax on salaries and fees and on interest and profits.

1851 Maine enacted a prohibition law which forbid the manufacture and sale of alcoholic liquors in the state.

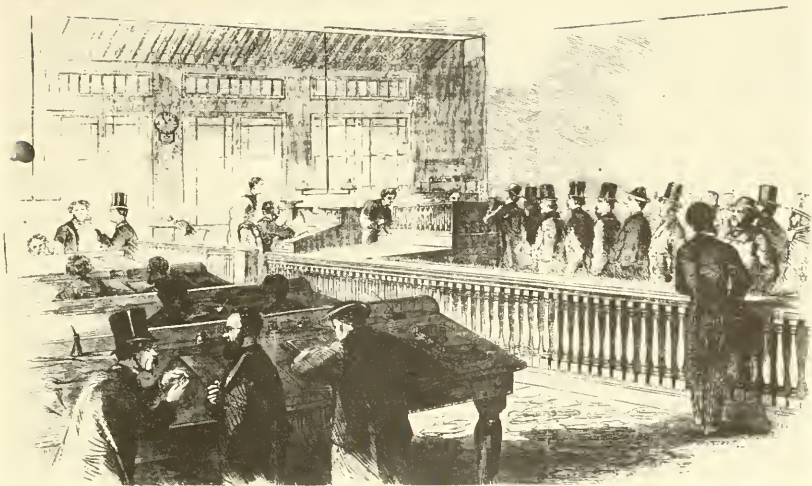
1851 Massachusetts passed the first state law which allowed towns to tax inhabitants to support free libraries.

1855 The Court of Claims was created, allowing for refund suits to be brought directly against the United States for the first time. Decisions of the Court of Claims were considered to be only advisory and required approval by Congress.

1856 The Democrats endorsed free trade in their party platform and pressed for reduced tariffs.

1857 The economy was shaken by a sharp but short-lived financial panic.





*Taxpayers line up in a collector's office during the Civil War to pay their income tax.*

# 1860-1865

## REBELLION AND WAR: CREATIVE FINANCING CREATES LASTING LEGACIES



The financial demands of the civil war required that Congress seek new ways to raise revenue. As a result, the first income tax imposed on the citizens of the United States was enacted in 1861. Because Congress neglected to simultaneously establish a mechanism to collect this revenue, another year passed before the Bureau of Internal Revenue was created to administer the Civil War income tax and other revenues. This first income tax, intended to be a temporary revenue raising measure, featured progressive rates ranging from three to five percent on incomes above \$600 per year.





JUNE 1860 The Ways and Means Committee eliminated one million dollars from a naval appropriations bill for repair and equipping of vessels. Congressman Lovejoy of Illinois stated, "I am tired of appropriating money for the army and navy when, absolutely, they are of no use whatsoever."

DECEMBER 1860 The Secretary of the Treasury reported that receipts from customs duties were already falling below what would ordinarily be expected.

FEBRUARY 8, 1861 Congress authorized the President to borrow \$25 million before July 1 by issuing stocks with interest not to exceed six percent. Before Congress adjourned, the President was authorized to borrow an additional \$10 million at the same rates. This was the last financial measure passed during the Buchanan administration.

MARCH 2, 1861 Congress passed the Morrill Tariff Act which became the existing tariff at the onset of the Civil War. This tariff was amended in 1862 and 1864, with duty levels reaching 47 percent by the end of the war.

JUNE 6, 1861 The *New York Times* praised the English revenue system and proposed a very slight tax upon incomes.

JULY 4, 1861 The 37th Congress convened in a special session which lasted through August. The nation had been in a virtual state of war since April 15.

JULY 9, 1861 The Ways and Means Committee reported a bill authorizing the Secretary of the Treasury to borrow \$250 million over the next 12 months.

JULY 16, 1861 Congress introduced the first bill of the Civil War providing for an increase in revenues, but it provided only for changes in tariff duties and not for any form of internal taxes. The bill called for an increase in duties on sugar, tea, and coffee.

JULY 17, 1861 Congress passed a loan act empowering the Secretary of the Treasury to borrow \$250 million in three-year, 7.3 percent Treasury notes or in 20-year bonds not exceeding 7 percent.

JULY 17, 1861 The *New York Tribune* declared, "We do not strenuously object to direct taxes, though we prefer to raise money by excise rather than by an indiscriminant Income or Property Tax."

JULY 19, 1861 Congress approved a tariff bill containing moderate increases on items such as coffee, tea, and sugar.

JULY 23, 1861 The House Ways and Means Committee approved a bill providing for a direct tax of \$30 million, apportioned equally among the loyal and seceded states. About \$20 million of this tax fell on the loyal states.

JULY 24, 1861 Vermont Representative Justin Morrill of the Subcommittee on Taxation of the Ways and Means Committee reported the bill







providing for a direct tax and various internal duties. Borrowing from an earlier measure in 1813, the omnibus bill provided \$30 million in revenues derived principally from real estate taxes apportioned on a state requisition system.

JULY 25, 1861 Senator James F. Simmons of Rhode Island attached a proposal for an income tax to a tariff bill he introduced.

JULY 29, 1861 The Ways and Means Committee reported Morrill's bill again, diminishing the direct tax by one-third (to \$20 million) and including a tax of three percent on all incomes over \$600 per year. The House passed this bill by a vote of 77-60 on this day.

JULY 29, 1861 The Senate adopted Senator Simmon's amendment for a tax on incomes over \$1,000 for persons residing in the United States and a tax of 7.5 percent on incomes derived from property owned in the United States by any citizen of the United States residing abroad. Income derived from interest on securities of the United States was to be taxed at only 2.5 percent.

AUGUST 5, 1861 The Conference Committee of both houses reported back a bill which included the changes in tariff rates, the direct tax, and the income tax which was passed in an emergency session of Congress. President Lincoln signed the bill which would be known as the Revenue Act of 1861, imposing a direct tax of \$20 million per year apportioned among the existing states and territories and the District of Columbia.

This bill also imposed new excise taxes and an income tax set at three percent of annual income over \$800. The rate was raised to five percent on income derived from property owned by American citizens residing abroad, except for income derived from U.S. securities which was taxed at a rate of 1.5 percent. The tax was to be paid by June 30, 1862. Each state was allowed to assess, collect, and pay its quota of the direct tax.

This act established the position of "Commissioner of Taxes" with powers and responsibilities similar to those of the Commissioner of the Revenue of earlier periods (this position was never filled), allowed a principal assessor and collector in each state and territory and a collector and an assessor in each of the collection districts. Because all loyal states (except Delaware) had paid their taxes by February 1862, no collectors or assessors were appointed under this law.

AUGUST 5, 1861 In response to the new tax law, the *New York Herald* stated, "Millionaires like Mr. W.B. Astor, Commodore Vanderbilt... and others, will henceforth contribute a fair proportion of their wealth to the support of the national government."

DECEMBER 2, 1861 When Congress reconvened in regular session, the Secretary of the Treasury reported that nothing had been done in his office toward getting the machinery in order for the collection of direct taxes.





1861 The Secretary of the Treasury recommended to Congress that a national banking system be established to strengthen the Union's finances and provide a uniform currency.

JANUARY 8, 1862 The *New York Times* asserted that the income tax was "one of the most equitable and bearable taxes that can be proposed."

JANUARY 21, 1862 Congress passed a resolution "that, in order to pay the ordinary expenses of the Government, the interest on national loans, and have an ample sinking fund for the ultimate liquidation of all public debts, a tax shall, with the tariff on imports, secure an annual revenue of not less than \$150 million."

FEBRUARY 1862 Congress authorized the printing of treasury notes, dubbed "greenbacks" because of the green ink used for printing.

MARCH 3, 1862 The House Ways and Means Committee presented a revenue measure to the House providing for taxes expected to yield about \$164 million annually. The bill included an income tax, but it was not an important item, as its yield was estimated at only \$5 million. Approximately one million dollars in revenue was expected from a tax on inheritances of personal property exceeding \$1,000.

APRIL 10, 1862 The internal revenue bill was sent to the Senate after easy passage in the House. The House version of the bill placed a tax of three percent on all incomes over \$600 and also provided for a

direct tax. The Senate voted to strike out the direct tax, raised income tax rates, and made them progressive.

The Committee of Conference ironed out the differences between House and Senate versions—keeping the direct tax, but suspending its operation for two years. The progressive rates for the income tax were kept with tax rates of three percent on income from \$600 to \$10,000 and five percent on incomes over \$10,000.

JUNE 7, 1862 An act provided for the appointment of a board of tax commissioners in each of the states in rebellion to collect the direct tax. Commissioners were not to enter on duty until the military authority of the United States was established in each state. Commissioners were authorized to lease lands until the rebellion was put down and the authority of the United States established.

The U.S. Direct Tax Commission for the District of South Carolina was authorized on this date, as part of the bill providing "for the collection of direct taxes in insurrectionary districts within the United States." During this month a board of three commissioners was sent to Beaufort, South Carolina to collect the direct tax levied by the act of August 5, 1861.

JUNE 30, 1862 The first income taxes were due under the law of August 5, 1861. These taxes were never collected because there was no administrative system established for this purpose.





**JULY 1, 1862** The second revenue measure of the Civil War was signed into law by President Lincoln on this date and featured progressive taxation, levies on incomes, and withholding. Congress suspended the operations of the act of August 5, 1861 until April 1, 1865, except for the collection of the first annual direct tax of \$20 million.

Congress levied internal revenue taxes and established an internal revenue system as a permanent government organization for the first time. The law also taxed estates, public utilities, occupations, distilled spirits, tobacco, banks, insurance companies, advertisements, slaughtered cattle, railroads, ferry boats, and other specified commodities. Stamp taxes were also added on certain commercial papers, perfume, cosmetics, medicines, and playing cards.

The law introduced the first withholding system, requiring that three percent of salaries in civil, military, and naval services be withheld after August 1, 1862. The Office of the Commissioner of Internal Revenue was established in the Treasury Department by this law and the President was authorized to divide the country into "convenient collection districts" and to appoint, with the advice and consent of the Senate, an assessor and collector for each collection district. The assessor was charged with locating objects of taxation and preparing assessment lists to be delivered to the collector.

**JULY 3, 1862** The signing of the revenue law by President Lincoln was front page news in Washington, D.C. Also signed on the first of July

were an authorization for a rail and telegraph line between the Missouri River and the Pacific Ocean and a bill to prevent and punish polygamy.

**JULY 14, 1862** Congress passed a tariff act to increase duties to offset the impact of the previously enacted internal taxes.

**JULY 17, 1862** The First Commissioner of Internal Revenue took office. George S. Boutwell, a Massachusetts lawyer who had served in the state legislature and also as governor, was confirmed by President Lincoln for this position on April 24, 1862.

**JULY 29, 1862** Six collection districts were established in Iowa.

**JULY 30, 1862** Five collection districts were established in California.

**AUGUST 1, 1862** The Revenue Act of July 1 specified 33 trades or professions which could not be performed until a license was obtained. The penalty for carrying on a trade or business without such a license after this date was three times the cost of the license.

**AUGUST 6, 1862** Three collection districts were established in New Hampshire and three in Vermont.

**AUGUST 8, 1862** Four collection districts were established in Connecticut and two in Rhode Island.

**AUGUST 11, 1862** Five collection districts were established in New Jersey. Twenty-four collection districts were established in Pennsylvania.





AUGUST 12, 1862 Five collection districts were established in Maine.

AUGUST 15, 1862 Eleven collection districts were established in Indiana.

AUGUST 19, 1862 Nineteen collection districts were established in Ohio.

AUGUST 22, 1862 Thirty-two collection districts were established in New York.

AUGUST 25, 1862 Thirteen collection districts were established in Illinois.

AUGUST 26, 1862 Ten collection districts were established in Massachusetts. Six collection districts were established in Wisconsin.

AUGUST 27, 1862 Five collection districts were established in Maryland.

AUGUST 1862 The Commissioner advertised for bids for printing revenue stamps. A contract was awarded to Butler and Carpenter of Philadelphia.

SEPTEMBER 1, 1862 The new internal revenue laws on alcohol and other items went into operation. The tax on fermented liquors was \$1 per barrel of not more than 31 gallons.

SEPTEMBER 17, 1862 Six collection districts were formed in Michigan.

OCTOBER 1, 1862 The portions of the Revenue Acts of July 1, 1862 imposing stamp taxes went into effect. The Commissioner was given

responsibility for issuing all stamps. Adhesive backed revenue stamps were first issued this year.

DECEMBER 25, 1862 An amendatory act to the Act of July 1, 1862 provided that all official documents of the United States were exempt from stamp taxes. This act also held that no instrument could be considered invalid for lack of a particular kind of stamp with the exception that stamps for use on proprietary articles could not be used on legal instruments.

1863 In its first year of operation, the Office of the Commissioner of Internal Revenue collected \$39.1 million.

JANUARY 1, 1863 By this date, the work force of the Bureau of Internal Revenue totalled 3,882 employees. This included 3,822 in the field service (366 collectors and assessors, 898 deputy collectors, 2,558 assistant assessors) and 60 in administrative offices in Washington (1 Commissioner, 51 male clerks, and 8 female clerks).

Assessors were paid \$3 per day while giving instructions; \$5 per day while hearing appeals, considering valuations and preparing assessment lists; and \$1 for every 100 names in the tax lists submitted to the collector. Assistant assessors received \$3 per day and an allowance of \$1 for every 100 names delivered to the assessor. Collectors received a commission of four percent on all money collected up to \$100,000 and 2 percent on money above that amount. Deputy collectors were paid by the collector.





FEBRUARY 2, 1863 Commissioner Boutwell issued a decision that, however slaves may have been regarded by the laws of a state previous to their emancipation, if they were liberated by the last will and testament of their masters, they were not to be treated as personal property and were not subject to the inheritance tax.

FEBRUARY 25, 1863 Congress passed the National Banking Association Act which established a system of national banks. The banks were required to have one-third of their capital invested in U.S. securities, deposited in the United States Treasury. The banks could then issue paper currency up to the value of 90 percent of their U.S. bond holdings. By the end of 1865, more than 11,500 banks had joined the national banking system.

MARCH 3, 1863 Congress passed an act which included a provision allowing the President to appoint a Deputy Commissioner of Internal Revenue as well as a Cashier of Internal Revenues.

The Cashier would be in charge of all monies received in the Office of the Commissioner. The first Deputy Commissioner was C.F. Estee of New York. Authority was also given to the Secretary of the Treasury to hire not more than three revenue agents to help detect, prevent, and punish fraud.

The tax on fermented liquors was lowered from \$1 to 60 cents per barrel. All banks, associations, corporations, or individuals issuing notes or bills for circulation as currency were required to pay a duty of one per-

cent every six months. The Secretary of the Treasury was authorized to compromise claims.

MARCH 4, 1863 George Boutwell resigned after less than one year as Commissioner to become a Massachusetts Congressman. Boutwell later became Secretary of the Treasury.

MARCH 18, 1863 Joseph J. Lewis of Pennsylvania became the second Commissioner of Internal Revenue.

APRIL 1863 The Bureau of Internal Revenue issued rules to guide assessors and collectors in collecting the inheritance tax.

JUNE 4, 1863 A group of western and eastern manufacturers met in Chicago and adopted resolutions demanding that the income tax be suspended, so far as it affected income from stocks, until Congress assembled again. The Treasury Department refused to bow to this pressure.

SEPTEMBER 16, 1863 The President instructed the South Carolina Direct Tax Commission to reserve 81 plantations on the sea islands of that state for military, naval, charitable, educational, or police purposes. These instructions also provided for the sale of homesteads of 10 and 20 acres to heads of families of African descent.

OCTOBER 1863 Taxation of bank circulation and deposits began.

JANUARY 1864 Pennsylvania Representative Thaddeus Stevens introduced a bill to raise the tax on





distilled spirits from 20 to 60 cents per gallon, as recommended by Secretary Chase. Whiskey speculators began hoarding the commodity.

MARCH 7, 1864 The tax on distilled spirits was raised from 20 to 60 cents per gallon.

APRIL 1, 1864 The tax on fermented liquors was raised from 60 cents to \$1 per barrel.

APRIL 14, 1864 The Ways and Means Committee reported a bill to provide additional internal revenue, with an income tax rate of 5 percent on incomes above \$600.

JUNE 30, 1864 Congress suspended the act of August 5, 1861 levying the annual direct tax of \$20 million. The Committee of Conference passed an internal revenue bill with progressive rates of 5 percent on income between \$600 and \$5,000; 7.5 percent on incomes between \$5,000 and \$10,000; and 10 percent on incomes over \$10,000.

The bill also provided for withholding of 3 percent of income up to \$5,000 and on interest and dividends paid by banks, railroads, insurance companies, etc. The tax on distilled spirits was raised from 60 cents to \$1.50 per gallon.

This law exempted savings-banks from all taxation where they had no capital stock and confined their business to receiving and loaning deposits for the benefit of depositors only. This act imposed a tax upon the capital, circulation, and deposits of persons and corporations engaged in banking. The tax on dividends was raised from 3 to 5 percent.

The Commissioner was authorized to compromise all suits "relating to internal revenue," to abate outstanding assessments, and to refund taxes, subject to prescribed regulations. This act provided for the seizure of property "found in the possession of any person for the purpose of being sold or removed in fraud of the revenue or with design to avoid the payment of tax."

The tax on smoking tobacco was increased from 5 to 25 cents per pound. Fine-cut chewing and plug tobacco taxes were increased from 15 to 35 cents per pound.

The Commissioner was authorized to refund taxes erroneously or illegally assessed and collected. The Secretary of the Treasury was authorized only until July 1, 1866 to assign the number of clerks he deemed necessary to the Bureau of Internal Revenue.

Taxes imposed on banks, insurance and railroad companies required returns to be filed with the assessor with payment made to the collector. The number of revenue agents was increased from three to five.

JULY 4, 1864 Congress imposed an income tax in addition to that of June 30, of 5 percent on all incomes over \$600 for the year ending December 31, 1863. This tax was to be collected on or before October 1, 1864. This emergency levy was inspired by the fear that despite the anticipated revenues from the June 30 bill, the Treasury would lack the income needed to meet the war's demands. This extra levy was expected to pay bounties for the enlistment of 200,000 men.







SEPTEMBER 1, 1864 Revenue stamps were required on matches.

DECEMBER 22, 1864 The tax on distilled spirits was raised from \$1.50 to \$2.00 per gallon.

1864 Mark Twain paid an income tax of \$36.82, plus a \$3.12 late filing fine and remarked that he felt "important" because the government was finally paying attention to him.

FEBRUARY 9, 1865 Justin S. Morrill introduced a bill to amend the Internal Revenue Act of June 30, 1864 to increase the revenue and reinforce the Treasury. He recommended increasing taxes to a rate of 10 percent on all incomes over \$3,000. Robert Mallory of Kentucky maintained that this was an excessive amount and suggested a tax of 5 percent on incomes between \$500-\$5,000 and 10 percent on incomes over \$5,000. This was the version adopted by the House on February 16 by a vote of 65-56.

MARCH 1, 1865 One collection district was established in Arkansas.

MARCH 3, 1865 Morrill's internal revenue measure became law. This act imposed the highest tax rates of the Civil War. As part of this measure, Congress created the U.S. Revenue Commission to study rising tax revenues and the efficiency of tax administration. The members were to be appointed for four-year terms and included David Wells of New York, Stephen Colwell of Pennsylvania, and Samuel Hayes of Illinois.

Wells was appointed "Special Commissioner of the Revenue," with his four-year term beginning June 30, 1866. During his tenure, Wells submitted four annual reports which had significant impact on the fiscal policy of the United States.

Also under this bill, the assistant assessor was empowered to increase any taxpayer's estimate of his income, even if made under oath, when it seemed to be an understatement. Existing tax rates were increased by 20 percent. Savings banks were made liable to taxation under this act.

Cigar stamps were required and cigars were taxed at a uniform rate of \$10 per thousand. The tax on smoking tobacco, except that made exclusively of stems, was increased from 25 cents to 35 cents per pound while the tax on fine-cut and plug chewing tobacco was increased from 35 to 40 cents per pound.

This act also provided that assistant assessors could be appointed directly by assessors with approval of the Commissioner rather than being appointed by the Secretary of the Treasury. This act provided that any person feeling aggrieved by the decision of an assistant assessor could appeal to the assessor whose decision would be final unless reversed by the Commissioner. The number of authorized revenue agents increased from five to ten.

APRIL 16, 1865 The Treasury Department building served as the temporary White House for President Johnson for two months.





APRIL 27, 1865 Six collection districts were established in Missouri.

MAY 17, 1865 The Commissioner issued instructions to the Direct Tax Commissioners to suspend all sales of lands for taxes until otherwise ordered.

May 30, 1865 Four collection districts were established in Georgia. Three collection districts were established in South Carolina.

JUNE 2, 1865 Three collection districts were established in Mississippi.

JUNE 5, 1865 Four collection districts were established in Texas.

JUNE 22, 1865 Three collection districts were established in Louisiana.

JUNE 1865 The U.S. Revenue Commission was organized.

JULY 1, 1865 Joseph Lewis resigned as Commissioner and was replaced by William Orton, who had served as Collector of the Sixth District of New York.

JULY 1, 1865 Prior to this date, Collectors of Internal Revenue served as their own disbursing agents and were allowed to keep that part of their collections necessary to pay the expenses of assessing and collecting.

OCTOBER 31, 1865 William Orton resigned after only four months as Commissioner to become President of American Telegraph Company and later, Western Union.

NOVEMBER 1, 1865 Edward A. Rollins, a Republican from New Hampshire, became the fourth Commissioner. Rollins had served as Deputy Commissioner under Joseph Lewis.

1865 The imposition of a 10 percent tax on state bank notes drove the 7,000 different types of these notes out of circulation.





*Clerks leave the Treasury Department building on a rainy afternoon.*

1866-1872

RECONSTRUCTION AND REUNITING:  
CONGRESS RECONSIDERS THE INCOME TAX



The income tax enacted as an emergency measure during the Civil War expired and the nation once again relied on raising revenue through other means. The Bureau of Internal Revenue began to consolidate its organizational structure as fewer field offices were needed and the first of many Congressionally-sponsored investigations into the operations of the Bureau was undertaken by the “Special Commissioner of the Revenue” during these years.



JANUARY 25, 1866 Nine collection districts were established in Kentucky.

FEBRUARY 27, 1866 Seven collection districts were established in North Carolina.

FEBRUARY 1866 The U.S. Revenue Commission made a special report to Congress on "Distilled Spirits as a Source of National Revenue."

MARCH 14, 1866 Three collection districts were established in West Virginia.

APRIL 23, 1866 Eight collection districts were established in Virginia.

MAY 9, 1866 A joint resolution deleted paraffine oil and crude petroleum from the list of taxable items.

MAY 19, 1866 Eight collection districts were established in Tennessee.

JULY 13, 1866 Congress reduced or eliminated many taxes. The bill passed on this date allowed the income tax to stand with minor amendments due to the lack of time to deal with the many changes needed. The intent was to reduce the revenue collected by about \$65 million per year.

These changes included having the tax apply to citizens residing outside the United States; applying a tax rate of 10 percent on salaries above \$5,000 to officers of the federal government, who had previously been exempt from tax; carriages valued under \$300, yachts, pianofortes, and other musical instruments were exempted from tax; the 20 percent

increase in tax rates was removed; the income tax was declared payable every year "until and including the year 1870 and no longer."

This act established a definite number of personnel for the Bureau of Internal Revenue. The Commissioner was authorized a total of 256 employees, including 3 deputy commissioners, a solicitor, 7 heads of divisions, 221 clerks, 8 messengers, and 15 laborers. The law also created the Office of Solicitor of Internal Revenue. Walter H. Smith, a lawyer from Ohio, became the first Solicitor of the Revenue.

All deposits in savings banks and institutions where the deposits made by any one person amounted to \$500 were subject to taxation. This act changed the payment of taxes on dividends and interest on bonds from direct payment to the Commissioner to collectors and assessors in local districts. The amount of annual taxes paid by brewers and distillers was doubled. Manufacturers of tobacco, snuff, and cigars were classed as tobacconists instead of manufacturers.

This act provided a process by which collectors could sell goods seized for violation of the revenue laws where the value did not exceed \$300. This act provided that any person who executed or attempted to execute a fraudulent bond for the purpose of withdrawing spirits from bonded warehouses should forfeit all property in such spirits. This act provided for "special taxes" in lieu of the license taxes of earlier laws.





JULY 13, 1866 Three collection districts were established in Arkansas.

JULY 16, 1866 Congress authorized the unsold and unleased lands in South Carolina acquired in payment of the direct tax to pass into the custody of the Freedmen's Bureau.

AUGUST 1, 1866 The tax on cotton increased from two to three cents per pound. Affidavits, receipts for the delivery of property, appeals, confessions of judgments, writs, and other original processes were made exempt from stamp duty while a tax on bankers' and brokers' sales of stocks and bonds was added to the stamp schedule.

AUGUST 3, 1866 The Secretary of the Treasury issued an order to the Commissioner to suspend collection of the direct tax in the states which had been in secession. The commissions for the tax collectors in these states were dissolved, except in South Carolina where the collection of deferred payments on lands which had been bid in by the United States and afterwards sold on three years time to persons in the Army and the Navy continued.

AUGUST 1866 The tax on bankers and brokers sales was reduced from  $\frac{1}{20}$  to  $\frac{1}{100}$  of one percent and was made payable by stamps.

SEPTEMBER 1, 1866 Prior to this date, the tax on fermented liquors was paid in currency. After this date, the tax was paid by stamps affixed to the pigot of every barrel

removed from a brewery. This method of collection remained unchanged until Prohibition.

SEPTEMBER 30, 1866 The commission to collect the direct tax in Alabama was dissolved.

NOVEMBER 1866 Commissioner Edward Rollins reported to Congress on the administration of the income tax and for the first time provided information on the number of taxpayers and the amount of revenue in each class of the progressive tax rates. He also recommended that the amount of exemption be raised from \$600 to \$1,000.

DECEMBER 1, 1866 The commission to collect the direct tax in North Carolina was dissolved.

DECEMBER 15, 1866 The commissions to collect the direct tax in Georgia and Louisiana were dissolved.

DECEMBER 31, 1866 The commission to collect the direct tax in Mississippi was dissolved.

DECEMBER 1866 Congress charged a select committee with investigating "any frauds or evasions in the payment of internal duties" as well as the role of revenue officers in compromises, settlements, and underpayments. The committee issued a report the following year stating that "they doubted that the laws would ever be efficiently executed until there has been a reorganization of the revenue force."







1866 Representative James Garfield of Ohio (later President) spear-headed an effort to make tax information private.

1866 The national debt stood at \$2.86 billion, a level that would not be reached again until World War I.

FEBRUARY 13, 1867 Justin Morrill presented a bill to the House Ways and Means Committee on internal revenue, stressing the need to lower taxes. The bill proposed a flat 5 percent tax rate on incomes above \$1,000.

FEBRUARY 25, 1867 Congress approved refunding illegal collections of the direct tax by the Secretary of the Treasury.

FEBRUARY 28, 1867 The commission to collect the direct tax in Texas was dissolved.

FEBRUARY 1867 The Secretary of the Treasury adopted a hydrometer designed by a Mr. Tagliabue of New York. A committee of the National Academy of Sciences had approved the design of this hydrometer in an effort to establish a uniform and correct system to inspect and gauge spirits subject to tax. All gaugers were required to use this hydrometer.

MARCH 1, 1867 Clothing or articles of dress not specifically enumerated were exempt from taxation while tax rates on boots and shoes were reduced from six to two percent.

MARCH 2, 1867 The Senate accepted the House approved internal revenue measure in less

than three days, with its proposal for abandoning the progressive income tax rates. This new bill remained in force until 1870 and included a tax of 5 percent on all income over \$1,000. This act also moved back the date for the last collection of income taxes to April 30, 1870 (from June 30, 1870).

Receipts for the delivery of property, affidavits, appeals, confessions of judgement, writs, and other original processes, canned and preserved meats and shellfish, vegetables, and fruits, were exempted from stamp duty by this act. The use of packages known as "thirds" by brewers was authorized to accommodate brewers west of the Rocky Mountains. Taxes on cigars were reduced from \$10 to \$5 per thousand.

Under this act, district attorneys were required to report to the Bureau of Internal Revenue at the close of each court term the number of suits brought and the status of suits underway. This act authorized the Secretary of the Treasury to adopt, procure, and prescribe for use such hydrometers and weighing and gauging instruments for the prevention and detection of frauds by distillers of spirits as he deemed necessary.

This act also provided that if the amount of the tax on distilled spirits could not be obtained the spirits should be destroyed. This act amended the procedure for appeal to provide that no penalty would be assessed for making a false or fraudulent income return except after reasonable notice of the time and place of hearing.







MARCH 5, 1867 The commission to collect the direct tax in Arkansas was dissolved.

MARCH 26, 1867 Congress passed an act allowing the Secretary of the Treasury to discontinue the employment of any person involved in the collection of the direct tax in insurrectionary districts where, in his judgment, these services were no longer needed.

MARCH 1867 The time for making the annual assessment of articles in Schedule A (income and special taxes) was changed from May to March.

APRIL 3, 1867 A Committee of the National Academy of Sciences completed a report promoting the use of spirit meters designed by Mr. Isaac P. Tice of New York to measure the production capacity of distilleries for taxation purposes.

APRIL 26, 1867 The Secretary of the Treasury announced the adoption of spirit meters made by Mr. Tice and required distillers to apply for the devices by May 15, 1867.

APRIL 30, 1867 The commissions to collect the direct taxes in Virginia and Tennessee were dissolved.

SEPTEMBER 1, 1867 The tax on cotton was reduced from three cents to two and one-half cents per pound.

1867 Congress prohibited legal challenges to tax assessments prior to their collection.

FEBRUARY 3, 1868 A joint resolution provided for the appointment of a commission to examine and test spirit meters.

MARCH 31, 1868 Heavy penalties were laid upon revenue officers and agents for gross neglect of duty or for defrauding the United States. The same penalties applied if the revenue officer or agent had knowledge of fraud committed by any person and failed to report it in writing.

MARCH 1868 A new congressional committee investigated revenue frauds. The committee report accused President Andrew Johnson and his supporters of direct involvement in the fraud.

JUNE 8, 1868 Commissioner Rollins submitted his resignation to President Johnson, contingent on the appointment of a successor.

JULY 20, 1868 Congress passed a revenue act strengthening the administrative control of the Commissioner over his field officers. The Commissioner was authorized to appoint 25 "supervisors of internal revenue" who would have the power to transfer or suspend any officer or field employee of the Internal Revenue Bureau for neglect of duty, abuse of power, or fraud. The Commissioner was also given authority to hire 25 "detectives" to prevent fraud upon the government and assist in the collection of taxes.

The revenue provisions of this act were devoted almost exclusively to the taxation of distilled spirits and tobacco. Manufacturers were required to pack their product in





prescribed packages, to which stamps denoting payment of the tax were affixed. This act abolished all provisions for leakage on spirits manufactured after its enactment.

This act imposed two rates of taxation on tobacco products— 16 and 32 cents per pound. Taxes on distilled spirits were reduced from \$2.00 to 50 cents per gallon, but special taxes were added which made the total tax burden for distillers close to 75 cents per gallon. Under this act all spirits in bonded warehouses at the time of passage were required to be withdrawn and the tax paid prior to July 1, 1869.

JULY 23, 1868 Congress passed a joint resolution suspending the operation of the direct tax law until January 1, 1869. After this, no further action was taken by Congress or the President to put these laws into effect.

JULY 30, 1868 A revenue law passed this date required that a rectifying establishment could not be within 600 feet of a distillery and gave authority to revenue officers to break up any ground in order to look for pipes connecting two such places. This law was passed to prevent evasion of the tax.

AUGUST 5, 1868 President Johnson accepted Commissioner Rollins' resignation.

AUGUST 31, 1868 A warrant was brought against Commissioner Rollins, Deputy Commissioner Thomas Harland, several local distillers and others for tax evasion, bribery, and blackmail during

December 1867. The government later dismissed the case when the star prosecution witness was arrested for perjury.

NOVEMBER 2, 1868 The Secretary of the Treasury set this date for putting into operation the provisions of the revenue act of July 20, 1868 pertaining to the use of stamps on distilled spirits.

NOVEMBER 23, 1868 The Secretary of the Treasury set this date for putting into operation the provisions of the revenue act of July 20, 1868 pertaining to the use of stamps on tobacco products.

1868 The constitutionality of the gross receipts (corporation) tax was tested in the case of *Pacific Insurance Co. v. Soule*. Soule was the Collector for the First District of California. The Supreme Court rendered an opinion that the tax on premiums received by insurance companies was not a direct tax, but an excise duty and was therefore constitutional.

1868 Beginning this year, taxation of distilled beverages and tobacco became a major source of internal revenue. From 1868 to 1913, nearly 90 percent of all internal revenue collections came from these taxes.

FEBRUARY 5, 1869 A *New York Tribune* editorial stated, "The income tax is the most odious, vexatious, inquisitorial, and unequal of all our taxes... a tax on honesty, and just the reverse of protective. It tends to tax the quality out of existence."





MARCH 4, 1869 Congress amended the act of July 20, 1868 to provide that the compensation of storekeepers was to be repaid to the government by the manufacturers of distilled spirits and owners of warehouses.

MARCH 10, 1869 Edward A. Rollins resigned as Commissioner as Ulysses Grant assumed the Presidency.

MARCH 11, 1869 Columbus Delano, an Ohio Congressman, became Commissioner.

MARCH 12, 1869 Former Commissioner George S. Boutwell became the 28th Secretary of the Treasury.

APRIL 14, 1869 The Commissioner issued an order disallowing deductions for leakage of spirits when removed from bond.

APRIL 1869 The Commissioner established a policy requiring revenue stamps to be placed on the item being taxed so as to display the entire face of the stamp. This was to prevent frauds perpetrated by placing one stamp over another, which allowed taxpayers to deceive the tax collector by cutting the stamps in half.

AUGUST 3, 1869 The Commissioner issued Circular 79 which provided that no claim or application for refunding of taxes would be considered by the Commissioner unless it was filed within two years from the date of payment of tax.

SEPTEMBER 6, 1869 An attempt was made to assassinate revenue detective James J. Brooks in Philadelphia for which two men were convicted and sentenced to prison for seven years.

NOVEMBER 10, 1869 *The New York Times* reported that it hoped efforts to repeal the income tax would not succeed.

DECEMBER 10, 1869 *The New York Tribune* continued to oppose the income tax, writing, "We do not believe there is a tax levied by the Government so onerous upon so large a class of people as the Income Tax."

DECEMBER 20, 1869 David A. Wells presented his report as Special Commissioner of the Revenue to the Secretary of the Treasury. Shortly thereafter, President Grant dismissed Wells because he objected to his advocacy of tariff reform.

1869 Customs revenue again exceeded internal revenue.

1869 The Treasury Building was completed.

1869 The Supreme Court again ruled that the income tax was not a direct tax in the case of *Veazie Bank v. Fenno*. Chief Justice Chase, in delivering the opinion in this case, stated, "the words 'direct taxes,' as used in the Constitution, comprehended only capitation taxes, and taxes on land, and perhaps taxes on personal property by general valuation and assessment of the various descriptions possessed within the several States."





1869 The Prohibition Party, which supported legislative prohibition of the manufacture, transportation, and sale of alcoholic beverages, was formed in Chicago.

APRIL 5, 1870 Commissioner Columbus Delano forbade tax assessors from furnishing lists of taxpayers for publication.

APRIL 26, 1870 The *New York Times* argued that "a moderate and a properly collected income tax will be the most satisfactory and just of any that can be devised, and we hope the House of Representatives will firmly resist the effort of the Senate to keep it at the present figure..."

MAY 1870 Ways and Means Committee Chairman Robert Schenck of Ohio introduced a bill to reduce some internal taxes and to repeal the wartime inheritance tax.

JUNE 22, 1870 Both the Solicitor of Internal Revenue and the Solicitor of the Treasury were transferred to the newly organized Department of Justice.

JUNE 30, 1870 The Office of the Special Commissioner of the Revenue expired.

JULY 14, 1870 Congress passed a revenue act which preserved the income tax but lowered the rates to 2½ percent on incomes over \$2,000. The tax was limited to the years 1870 and 1871, "and no longer."

Administrative changes brought about by this law affected the publication of income tax returns in the first official confidentiality provisions

to the income tax law. During the Civil War there had been little objection to this practice, but following the war strong objection arose from the conservative press, resulting in the prohibition of publication of income tax returns. The law stated "that no collector... shall permit to be published in any manner such income returns or any part thereof, except such general statistics, not specifying the names of individuals or firms..."

Also, no penalties for refusal or neglect to make a return or an increase of assessment could be made or imposed without due notice to the person charged. This act also repealed the tax on legacies and successions.

OCTOBER 1, 1870 Sugar inspectors employed by the Bureau were required to determine the bounty on beet sugar. This provision was repealed in 1894.

OCTOBER 1, 1870 The tax on gross receipts, sales (other than sales paid by stamps and sales of tobacco, spirits, and wines), legacies, successions, articles in Schedule A, passports, and the special tax on boats, barges, and flats was repealed.

OCTOBER 31, 1870 The commission to collect the direct tax in South Carolina was dissolved.

1870 In *Day v. Buffington*, the U.S. Circuit Court of the District of Massachusetts held that the salary of a judge of a state court was not taxable by the United States. An appeal to the Supreme Court sustained the decision of the lower court.





1870 During this year, federal officers seized the tobacco manufacturing establishment of Elias C. Boudinot, a Cherokee Indian, operating inside the boundary of the Cherokee Nation for nonpayment of taxes. The District Court of the United States for the Western District of Arkansas upheld this action. Boudinot later won his case in the Court of Claims, recovering the sum of \$3,272.25, the value of his property seized and sold.

JANUARY 2, 1871 Columbus Delano resigned as Commissioner to become Secretary of the Interior.

JANUARY 3, 1871 Alfred Pleasanton became Commissioner. Pleasanton had been Collector of Internal Revenue in New York and his appointment as Commissioner was made against the advice of Secretary of the Treasury George Boutwell. Pleasanton was seen as compliant to the wishes of various big business groups, especially those whose claims were furthered by Samuel Ward of New York, the ablest lobbyist of the day. In the end, Boutwell removed Pleasanton after he had served only seven months.

JANUARY 19, 1871 The *New York Times* reversed its earlier opinion by stating that "the income tax has been unpopular from the moment of its enactment... let Congress redeem the session from utter barrenness by averting the vexation and unpopularity which will inevitably arise from the continued infliction of the impost i.e., income tax."

JANUARY 20, 1871 Commissioner Pleasanton sent a communication to Samuel Hooper of the Ways and Means Committee in which he said that the income tax was "most obnoxious to the genius of our people," was inquisitorial, exposed "the most private pecuniary affairs of our citizens," was not productive of great revenue, and should be unconditionally repealed. Pleasanton was soon contradicted by Secretary of the Treasury Boutwell.

FEBRUARY 7, 1871 Samuel Hooper moved that the House rules be suspended so that a bill to repeal the income tax might be passed. This motion was defeated 117-91. The Senate passed a bill to repeal the income tax, but this was returned by the House without consideration, because under the Constitution, revenue measures could not originate in the Senate.

MARCH 1, 1871 The First, Second, and Third Districts of New York were consolidated into the First District. The Fourth and Sixth Districts of New York were consolidated into the Second District. The Fifth and Seventh Districts of New York were consolidated into the Third District.

APRIL 1, 1871 The First and Second California Districts were consolidated into the First District. The First and Second Districts of Ohio were consolidated into the First District. The First and Third Districts of Pennsylvania were consolidated into the First District.







MAY 1, 1871 The repeal of special taxes, except those relating to spirits, tobacco, fermented liquors, and the special tax on boats, barges, and flats, went into effect.

JULY 1, 1871 The Second and Third Districts of Wisconsin were consolidated into the Second District.

AUGUST 8, 1871 Alfred Pleasanton resigned as Commissioner.

AUGUST 9, 1871 John W. Douglass of Pennsylvania became Commissioner.

DECEMBER 1, 1871 The First and Second Districts of Maryland were consolidated into the First District.

1871 Justice Strong, member of the U.S. Circuit Court for the Eastern District of Pennsylvania, upheld the constitutionality of the income tax imposed by the June 30, 1864 act.

JANUARY 2, 1872 The Second and Fourth Districts of Pennsylvania were consolidated into the Second District.

MARCH 1, 1872 The Fourth and Fifth Districts of Wisconsin were consolidated into the Third District.

MARCH 6, 1872 The number of internal revenue agents was increased to 25 and the number of supervisors reduced to 10.

JUNE 1, 1872 The Twenty-Seventh and Thirty-First Districts of New York were consolidated into the Twenty-Seventh District.

JUNE 6, 1872 An act authorized the Secretary of the Treasury to employ not more than three persons to assist in discovering and collecting any money belonging to the United States under such terms and conditions as he deemed best for the interests of the United States.

This allowed the Secretary of the Treasury to enter into contracts with individuals outside the Bureau of Internal Revenue to collect taxes. These individuals were to be paid from the monies and property they collected rather than from government funds. Authority was also given to pay rewards of 10 percent of monies collected to informants.

This act also required a reduction of the number of internal revenue districts to not more than 80. This act also reduced the price of stamps for rectified spirits and wholesale liquor dealers' packages from 25 cents to 10 cents, effective August 1, 1872. Alcohol taxes were raised from 50 to 70 cents per gallon. This act also imposed a uniform rate of taxation of 20 cents per pound on all tobacco products except snuff which was taxed at the rate of 32 cents per pound. The bonded warehouse system for the storage of tobacco intended for export was repealed.

Taxes on banks and bankers became assessable on the first of June and December, respectively. Special taxes were payable on May 1 of each year. A statute of limitations for claiming refunds of taxes alleged to have been paid in error was set at two years. Documentary stamp duties under Schedule B were repealed with the exception of two cent stamps on bank checks, drafts, or orders.





JUNE 8, 1872 The Secretary of the Treasury signed an agreement granting 50 percent of the gross amount of taxes collected by contract employees of the Bureau of Internal Revenue to the employee. This action ultimately led to much dissatisfaction among regular employees of the Bureau of Internal Revenue, whose salaries were set at a specific level, in no case to exceed \$3,500. Thus, no matter how much tax revenue a collector brought in, he could not hope to match the potential profits reaped by a contract tax collector.

AUGUST 13, 1872 Secretary of the Treasury Boutwell contracted with John D. Sanborn of Massachusetts to collect taxes from 39 "distillers, rectifiers, and purchasers of whiskey." Sanborn received 50 percent of what he collected.

Additional contracts with Sanborn were made in October 1872, March 1873, and July 1873. During his tenure Sanborn collected \$213,500.

The Commissioner objected to this manner of collecting taxes to no avail. These contracts became the subject of a congressional investigation in February 1874, in which it was decided that although the contracts were improper, the Secretary of the Treasury had not acted corruptly. The investigation report also stated that the Bureau of Internal Revenue could have collected the money more ably itself.

OCTOBER 1, 1872 All stamp taxes except those on bank checks were repealed.

DECEMBER 24, 1872 In response to the report from the Special Revenue Commission, Congress enacted legislation which abolished the offices of assessors and assistant assessors and transferred their duties to collectors. This action was to be completed before June 30, 1873. Most assessor's offices were closed by May 20, 1873.

DECEMBER 27, 1872 Alaska became part of the Oregon District.

1872 All income taxes enacted during the Civil War years expired. The tariff of 1872 reduced tariff rates by 10 percent. The total amount collection in income taxes for the years 1863-1874 was approximately \$274 million. An additional \$67 million was collected from taxes on corporate incomes and dividends and interest on United States securities. Together, these tax receipts accounted for just under 20 percent of total tax revenues for this period. Over \$617 million was collected from alcohol and tobacco taxes while another \$641 million came from various other excise and occupational taxes, accounting for over 70 percent of total internal revenue collections for this period. The number of individual income tax returns received during this period fluctuated widely, ranging from a high of 276,661 in 1870 to only 72,949 by 1872. Changing tax rates and exemption levels accounted for the difference.

1872 The job title of "detective" was changed to "agent" and the Commissioner was given hiring authority for fraud agents.

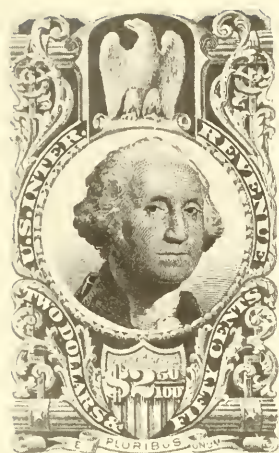




1872 An act was passed to permit former owners or their heirs of lands seized as a result of the direct tax laws of the Civil War in the states in secession to reclaim their former property, then held by the United States, if within two years they presented satisfactory proof of their former ownership and paid the taxes, penalty, costs, and interest at 10 percent per year from the date of assessment of the tax.

1872 A legal opinion in the case of *Erskine v. Van Arsdale* permitted the accrual of interest on a disputed refund from a collector from the time of payment to the time of judgment.





*Revenue Stamps were used widely throughout this period.*

# 1873-1885

## YEARS OF CONSOLIDATION: ALCOHOL AND TOBACCO REMAIN REVENUE MAINSTAYS



The consolidation of internal revenue offices around the country continued as the country retreated from the use of internal taxes to raise revenue. By the mid-1870s, the only remaining internal taxes were those on alcohol and tobacco. Enforcement of regulations for the operation of distilleries and other brewing facilities required that the Bureau of Internal Revenue establish laboratories to measure the alcoholic content of various liquors.



JANUARY 1, 1873 The First and Third Connecticut Districts were consolidated into the First District.

MAY 20, 1873 The First and Third California Districts were consolidated into the First District.

JULY 1, 1873 All offices of assessor and assistant assessor were abolished by this date.

NOVEMBER 1, 1873 The Second and Fourth Districts in Connecticut were consolidated into the Second District.

NOVEMBER 15, 1873 The First and Second Districts in Rhode Island were consolidated into the First District.

1873 Financial panic during this year caused a period of uncontrolled credit, inflation, wild speculation, and over-expansion. The country found itself entangled in unemployment, scandals, and corrupt practices. This and recurrent depressions which plagued the country through the 1890s fostered the rise of the Populist or People's Party. Made up of farmers and city labor groups, the Populists advocated an income tax not only as a source of revenue, but also as a symbol of reform and a means of regulating the economy.

1873-1879 Fourteen different income tax bills were introduced in Congress by Congressmen from the Midwest and the South. None were passed.

1873-1885 The Bureau of Internal Revenue issued special tax stamps for taxes levied on various categories or classes of dealers and manufacturers of tobacco.

JANUARY 29, 1874 The number of deputy collectors was decreased from three to two.

FEBRUARY 1, 1874 The First, Second, and Third Districts of Vermont were consolidated into the Second and Third Districts.

FEBRUARY 13, 1874 The House of Representatives passed a resolution asking the Secretary of the Treasury to transmit "copies of all contracts made..." for the collection of taxes out of concern that such contracts provided for abuses in the collection of the revenue.

APRIL 1, 1874 The Eighth and Ninth Districts of New York were consolidated into the Fourth District.

JUNE 1, 1874 The First and Second Districts of Kentucky were consolidated into the Second District.

JUNE 18, 1874 Congress exempted institutions doing business solely as savings banks from taxation on deposits.

JUNE 22, 1874 After an investigation, Congress repealed the use of contracts with private individuals to assist Bureau employees in discovering and collecting delinquent taxes. The Secretary of the Treasury was directed to revoke and annul all contracts for the collection







of taxes made under the original provisions.

While the investigation developed no specific evidence of corruption, the investigating committee determined that a large percentage of the taxes collected by the the contract employee Sanborn were not a proper subject of a contract under the law. This practice had also caused much dissatisfaction on the part of the Bureau's salaried personnel who often ended up assisting contract employees in obtaining the overdue revenue but not sharing in the 50 percent profit.

DECEMBER 1, 1874 The First and Second Districts of Texas were consolidated into the First District.

DECEMBER 19, 1874 The First and Second Districts of Virginia were consolidated into the Second District.

1874 The Supreme Court upheld the constitutionality of Civil War federal inheritance taxes in *Scholey v. Rew* on the ground that the inheritance tax was an excise tax or duty but not a direct tax as prohibited by the constitution.

1874 The National Women's Christian Temperance Union (W.C.T.U.) was formed in Cleveland to promote prohibition.

JANUARY 1, 1875 The Seventh and Ninth Districts of Pennsylvania were consolidated into the Ninth District.

FEBRUARY 8, 1875 Congress passed an act which provided for allowances to be paid to collectors of internal revenue for their salaries and the salaries of their deputies. As a result, the Treasury Department ceased payment of commissions to collectors.

MARCH 1, 1875 The three collection districts of Mississippi were consolidated into the First and Second Districts.

MARCH 3, 1875 The President signed a new tariff bill which repealed the 10 percent reductions and increased rates on several items. Taxes on tobacco products increased from 20 to 24 cents per pound and taxes on distilled spirits increased from 70 to 90 cents per gallon. (This rate was actually more than four times the cost of production.)

APRIL 1, 1875 The ten collection districts of Massachusetts were reduced to five, numbered the First, Third, Fifth, Eighth, and Tenth. The Fifth District of Virginia was reorganized.

MAY 14, 1875 John W. Douglass resigned as Commissioner.

MAY 15, 1875 Daniel D. Pratt of Indiana became Commissioner.

MAY 18, 1875 The Commissioner established a Division of Revenue Agents, relieving Supervisors of the Revenue of all responsibility in relation to directing Revenue Agents.





AUGUST 1, 1875 The First and Second Districts of Pennsylvania were consolidated into the First District.

AUGUST 31, 1875 The Commissioner abolished the services of special clerks, having determined that there was no authority for their employment.

OCTOBER 1, 1875 The Fifth District of Indiana was abolished.

NOVEMBER 1, 1875 The Twenty-Fifth and Twenty-Eighth Districts of New York were consolidated into the Twenty-Eighth District.

DECEMBER 1, 1875 The Fourth and Fifth California Districts were consolidated into the Fourth District.

DECEMBER 10, 1875 The First, Second, and Third Districts of New Hampshire were consolidated into the First District.

DECEMBER 15, 1875 The Second and Third Districts of Vermont were consolidated into the Second District.

1875 Secretary of the Treasury Bristow investigated and broke up the conspiracy of distillers and internal revenue officials known as the "Whiskey Ring." Orville Babcock, the President's private secretary was indicted while President Grant was implicated in this scandal. In the end, more than \$3 million in taxes was recovered and 238 persons were indicted and 110 convicted.

JANUARY 1, 1876 The Third District of Arkansas was formed with the consolidation of the previous First, Second, and Third Districts of Arkansas into one collection district.

The Second and Sixth Districts of Illinois were consolidated into the Second District. The Tenth and Twelfth Districts of Illinois were consolidated into the Tenth District.

The Second and Third Districts of Indiana were consolidated into the Second District. The Sixth and Eighth Districts of Indiana were consolidated into the Sixth District. The Ninth and Tenth Districts of Indiana were consolidated into the Tenth District. The Fifth and Eleventh Districts of Indiana were consolidated into the Eleventh District.

The Second and Third Districts of Maine were consolidated into the Second District. The Fourth and Fifth Districts of Maine were consolidated into the Fourth District.

The Third and Fifth Districts of Maryland were consolidated into the Third District.

The Fourth and Fifth Districts of New Jersey were consolidated into the Fifth District.

The Eleventh and Thirteenth Districts of New York were consolidated into the Eleventh District. The Tenth and Twelfth Districts of New York were consolidated into the Twelfth District. The Fourteenth and Eighteenth Districts of New York were consolidated into the Fourteenth District. The Fifteenth and Sixteenth Districts of New York were consolidated into the Fifteenth District.





The Seventeenth and Twentieth Districts of New York were consolidated into the Twentieth District. The Twenty-First and Twenty-Second Districts of New York were consolidated into the Twenty-First District. The Twenty-Third and Twenty-Fourth Districts were consolidated into the Twenty-Fourth District. The Nineteenth and Twenty-Sixth Districts of New York were consolidated into the Twenty-Sixth District. The Twenty-Ninth and Thirtieth Districts of New York were consolidated into the Thirtieth District.

The First and Second Districts of North Carolina were consolidated into the Second District.

The Fourth and Fifth Districts of Ohio were consolidated into the Fourth District. The Ninth and Tenth Districts of Ohio were consolidated into the Tenth District. The Eleventh and Twelfth Districts of Ohio were consolidated into the Eleventh District. The Thirteenth and Fourteenth Districts of Ohio were consolidated into the Thirteenth District. The Fifteenth and Sixteenth Districts of Ohio were consolidated into the Fifteenth District. The Seventeenth, Eighteenth, and Nineteenth Districts of Ohio were consolidated into the Eighteenth District.

The Fifth and Sixth Districts of Pennsylvania were consolidated into the Fifth District. The Eighth and Tenth Districts of Pennsylvania were consolidated into the Eighth District. The Twelfth and Thirteenth Districts of Pennsylvania were consolidated into the Twelfth District.

The Fifth and Sixth Districts of

Tennessee were consolidated into the Fifth District.

JANUARY 3, 1876 The Seventh and Eighth Districts of Tennessee were consolidated into the Eighth District.

JANUARY 5, 1876 The Seventh and Eighth Districts of Ohio were consolidated into the Seventh District.

JANUARY 7, 1876 The First and Second Districts of New Jersey were consolidated into the First District.

JANUARY 8, 1876 The Fourth and Fifth Districts of Kentucky were consolidated into the Fifth District.

JANUARY 9, 1876 The Eleventh and Thirteenth Districts of Illinois were consolidated into the Thirteenth District.

JANUARY 20, 1876 The Fourth and Ninth Districts of Illinois were consolidated into the Fourth District.

FEBRUARY 1, 1876 The Third and Fourth Districts of North Carolina were consolidated into the Fourth District.

JUNE 1, 1876 The First and Third Districts of South Carolina were consolidated into the Third District.

JULY 31, 1876 Daniel D. Pratt resigned as Commissioner.



AUGUST 2, 1876 Green B. Raum of Illinois became Commissioner.

AUGUST 15, 1876 An appropriations act provided for the transmittal of revenue stamps to collectors by registered mail and dispensed with the "gauging of packages of distilled spirits filled on the premises of wholesale liquor-dealers" and provided that such packages "shall thereafter be stamped under such regulations as the Commissioner of Internal Revenue may prescribe." Under the provisions of this act, the duties of the gauger and storekeeper could be combined into one position for the first time. This act also called for a reduction of the number of collection districts to 131.

SEPTEMBER 8, 1876 The First and Third Districts of Massachusetts were consolidated into the Third District.

SEPTEMBER 16, 1876 The Sixteenth and Seventeenth Districts of Pennsylvania were consolidated into the Sixteenth District.

SEPTEMBER 20, 1876 The Second and Third Districts of Michigan were consolidated into the Third District.

The Third and Fourth Districts of Missouri were consolidated into the Fourth District.

OCTOBER 2, 1876 Nine Maryland counties became part of the Delaware Collection District. The District of Columbia became part of the Third District of Maryland.

The Thirteenth District of Illinois was abolished and the Fourth

District was reestablished with new boundaries.

The Second, Sixth, and Seventh Districts of Indiana were abolished.

The First, Second, and Fourth Districts of Iowa were abolished and reconstituted as the Second and Fourth Districts. The First and Second Districts of Maine were consolidated into the First District.

The First and Third Districts of Maryland were abolished. The Twentieth and Twenty-First Districts of New York were consolidated into the Twenty-First District. The Seventh, Thirteenth, and Eighteenth Districts of Ohio were abolished.

The Fourteenth and Eighteenth Districts of Pennsylvania were consolidated into the Fourteenth District. The Twenty-Second and Twenty-Third Districts of Pennsylvania were abolished.

The Third, Fourth, and Fifth Districts of Tennessee were consolidated into the Fifth District.

The Fifth and Sixth Districts of Virginia were consolidated into the Sixth District.

The First and Third Districts of West Virginia were consolidated into the First District.

OCTOBER 11, 1876 The Third and Sixth Districts of Iowa were consolidated into the Third District.

The First and Second Districts of Tennessee were consolidated into the Second District.





NOVEMBER 1, 1876 The Second and Fourth Districts of Georgia were consolidated into the Second District.

The Second and Third Districts of Kentucky were consolidated into the Second District.

The Second and Third Districts of South Carolina were abolished and the state was constituted as the South Carolina District.

DECEMBER 1, 1876 The First and Third Districts of Georgia were consolidated into the Third District.

The Fifth and Eighth Districts of Virginia were consolidated into the Fifth District.

1876 The number of deputy commissioners was decreased from two to one and supervisors of internal revenue were abolished. The Commissioner divided the country into 18 revenue agents' districts, assigning one revenue agent to each.

1876 A prohibition amendment to the constitution was introduced in the House of Representatives.

JANUARY 1, 1877 The Eighth and Tenth Districts of Massachusetts were consolidated into the Tenth District.

The Sixth and Seventh Districts of North Carolina were consolidated into the Sixth District.

FEBRUARY 9, 1877 Lieutenant McIntire was killed in Georgia while enforcing laws against illicit distilling.

MARCH 1, 1877 The Third District of Alabama was abolished and consolidated with the realigned

First and Second Districts of Alabama.

The First and Fifth Districts of Michigan were consolidated into the First District.

MARCH 3, 1877 An appropriations act authorized the establishment of special bonded warehouses for the storage of brandy made from grapes for a period of three years before payment of tax was due. The act also reduced the number of collection districts to 126 and transferred responsibility for the printing of all internal revenue stamps, except adhesive and proprietary stamps, stamps on checks, and stamps on tin-foil tobacco wrappers, to the Bureau of Engraving and Printing.

MARCH 1877 Commissioner Raum established a system of inspection of collector's offices which ranked each office against a uniform standard of a "First Class Office."

JUNE 1, 1877 The First, Second, and Third Districts of Louisiana were consolidated into the District of Louisiana.

JUNE 18, 1877 Two Virginia counties were added to the territory of the Delaware Collection District.

JUNE 19, 1877 The Second District of Virginia was reorganized.

JULY 1, 1877 The First and Fourth Districts of Maine were consolidated into the First District.

The First and Second Districts of Mississippi were consolidated into the First District.





The Second District of New York was reorganized and the Thirty-Second District of New York was abolished.

AUGUST 17, 1877 The number of relatives who could be employed in each Internal Revenue district was limited.

OCTOBER 4, 1877 The stock of revenue stamps was transferred from the New York Bank Note Company as the Bureau of Engraving and Printing took over the printing of internal revenue stamps for tobacco, spirits, and beer for the Bureau of Internal Revenue. Stamps were delivered directly to the Bureau of Internal Revenue for storage and shipment to the various collection districts. Prior to this, the printing and shipment of revenue stamps except for those on bank checks and tin foil tobacco wrappers was handled by the American, Continental, and National Bank Note Companies of New York.

1877 In response to growing problems with states arresting revenue agents and the U.S. Marshals assisting them and concerned about its revenues, Congress passed a law to protect revenue agents from arrest for acts taken in the discharge of their responsibility to collect taxes.

1877 Six internal revenue officers were killed in the line of duty, including Lt McIntire, 3 guides, and 2 others, in Georgia, Tennessee and Virginia. Six others were wounded, in New Jersey, North Carolina, and Virginia.

MARCH 28, 1878 A joint resolution extended the bonded period for distilled spirits to three years. In response, distillers founded the National Distillers and Liquor Dealers Association to seek changes in Internal Revenue regulations.

APRIL 1878 Deputy Marshal Rufus H. Springs was killed in an ambush while accompanied by a posse of deputy collectors in a search for an illicit still in South Carolina.

JUNE 19, 1878 An appropriation act included \$75,000 for "detecting and bringing to trial and punishment, persons guilty of violating the internal revenue laws, or accessory to the same, included payments for information and detection..."

AUGUST 9, 1878 Deputy Collector Cooper of Knoxville, Tennessee, was killed.

AUGUST 1878 In Overton County, Tennessee, a posse of 11 internal revenue officers had stopped at a farmer's house for the night and were attacked by a band of armed illicit distillers who kept up the attack through the night. By the next morning the force of attackers numbered nearly 200. The officers took shelter in a log house where they were besieged for 42 hours. Three internal revenue officers were wounded during this period. Although Commissioner Raum ordered a force to assist the officers, the officers were released before the rescue force arrived.





1878 To facilitate the export of distilled liquors, the government removed the tax on all export liquor, replacing it with a ten cents a barrel export stamp.

MARCH 1, 1879 The Secretary of the Treasury was authorized to set the salaries of collectors and deputy collectors and to pay them from United States funds. One of the purposes of this change was to halt the payment of commissions based on the amount of taxes collected to collectors and their deputies. The minimum salary was set at \$2,000, if annual collections were \$2,500 or less, and a maximum salary of \$4,500 if annual collections amounted to \$1,000,000 or more.

The total number of authorized revenue agents was increased from 25 to 35. The tax rate on snuff was lowered from 32 to 16 cents per pound while the tax rate on tobacco was lowered from 24 cents to 16 cents per pound. The tax on cigarettes and cigars was not reduced. A redemption period of three years was allowed for check stamps or imprinted stamps. An act of this date authorized the use of a process of vaporizing alcohol in the manufacture of vinegar.

MARCH 3, 1879 Congress authorized the Commissioner, with the approval of the Secretary of the Treasury, to exempt distillers whose distilleries had a daily producing capacity of less than 30 gallons of proof spirits from the provisions of existing law which required the process to be carried on through continuous closed ves-

sels and pipes or which required the cisterns to be connected with the outlet of the worm.

JULY 21, 1879 The largest distillery in the United States was put into operation in the fifth district of Illinois.

OCTOBER 15, 1879 The work of printing documentary and proprietary stamps was transferred from the American Bank Note Company of New York to the Bureau of Engraving and Printing. Printing of check stamps remained with the Graphic Company of New York City and printing of stamps on tin foil wrappers for tobacco with the John J. Crooke and Company of New York.

1879 The Supreme Court upheld the 1877 legislation protecting revenue agents from arrest by state authorities in *Tennessee v. Davis*, after U.S. Marshal and Deputy Collector of Internal Revenue James Davis was indicted for murder after killing J.B. Haynes after Haynes shot at him while Davis was destroying an illegal still.

1879 The Commissioner published a compilation of all internal revenue laws and statutes to be used by judges, district attorneys, marshals, and officers of internal revenue. He also directed the revision and enlargement of the *Revenue Agents' Manual*.





MAY 28, 1880 Congress passed an act repealing all charges on stamps for rectified spirits and wholesale liquor dealers' packages. The rate had been 10 cents per stamp since 1872. Allowances for loss of distilled spirits while in the warehouse were authorized.

JULY 1, 1880 Responsibility for the appointment of storekeepers, gaugers, and tobacco inspectors was shifted from the Commissioner of Internal Revenue to the Secretary of the Treasury.

JANUARY 1881 Beginning this month, distilleries producing 100 bushels or less each day were placed under the control of a single storekeeper-gauger. Before this, the cutoff had been distilleries producing 60 bushels or less each day.

JULY 16, 1881 For the first time, the Bureau of Internal Revenue required applicants for positions of storekeeper, gauger, inspector, or other subordinate positions to submit applications in writing, including age, legal residence, place of birth, service in the Army or Navy, names of relatives employed in the government, experience, and previous work, accompanied by recommendations.

JULY 20, 1881 Deputy Collector Thomas L. Brayton was killed in Pickens County, South Carolina by John McDow, an illicit distiller whose still he had seized and he was attempting to arrest.

AUGUST 8, 1881 The Indian Territory became part of the Kansas Collection District.

NOVEMBER 2, 1881 Taylor Love was killed in Habersham County, Georgia, for giving information to internal revenue officers about illicit distilling operations.

1881 In *Springer v. United States*, the Supreme Court upheld the constitutionality of the 1862 income tax. The Court stated that Congress never intended it as the direct tax prohibited by the Constitution.

MARCH 13, 1882 Deputy Collector James M. Davis was killed in McMinnville, Warren County, Tennessee in an ambush after leaving court.

MARCH 1882 Lee Turner was killed in Swinnett County, Georgia for informing internal revenue officers about illicit stills.

MAY 5, 1882 Through legislation enacted on this date, all Chinese laborers were required to apply to the Commissioner of Internal Revenue for certificates of residence and the Bureau was expected to enforce this legislation.

AUGUST 7, 1882 An act of Congress required the Commissioner to make a detailed statement of all miscellaneous expenditures in the Bureau of Internal Revenue.

FEBRUARY 10, 1883 Deputy Collector Henry F. Walker was shot and killed by David Fraley in Stanley County, North Carolina while





attempting to seize an illegal distillery.

MARCH 3, 1883 All internal taxes, except those on tobacco products, distilled spirits, fermented liquors, and on the dealers of these products were repealed through legislation enacted this date. Stamp taxes were also repealed by this act, effective July 1, 1883. Taxes on tobacco products were cut in half to a rate of 8 cents per pound. The Secretary of the Treasury was authorized to audit and pay the claims of the original owners of lands which were sold for non-payment of direct taxes.

APRIL 30, 1883 Green B. Raum resigned as Commissioner.

MAY 1, 1883 Reduced tobacco tax rates took effect.

MAY 21, 1883 Walter Evans of Kentucky became Commissioner.

JUNE 15, 1883 The repeal of the tax on bank checks resulted in the cancellation of the contract with the Graphic Company of New York City which had supplied stamps imprinted on bank checks.

JUNE 25, 1883 An Executive Order of the President outlined a consolidation plan for collection districts, reducing the total number of districts from 126 to 85. The Bureau estimated an annual savings of \$125,000 as a result of these reductions.

JULY 1, 1883 All stamp taxes not previously abolished were repealed. This included adhesive stamp taxes on proprietary medicines, bank checks, and friction matches.

JULY 21, 1883 The Second District of North Carolina was consolidated with the Fourth District of North Carolina.

JULY 25, 1883 The Twenty-Fourth and Twenty-Sixth Districts of New York were consolidated with the Twenty-First District of New York.

The Seventh District of Ohio was consolidated with the Eleventh District of Ohio.

AUGUST 1, 1883 The Third District of Illinois was consolidated with the Second District of Illinois.

The First District of Indiana was consolidated with the Seventh District of Indiana. The Fourth District of Indiana was consolidated with the Sixth District of Indiana.

The Third and Fourth Districts of Maryland were consolidated into the Maryland District.

The Fifth Massachusetts District was consolidated with the Third District of Massachusetts.

The Second Missouri District was consolidated with the First Missouri District.

The Eleventh District of New York was consolidated with the Fourteenth District of New York. The Twelfth District of New York was consolidated with the Fifteenth District of New York.

The Third District of Ohio was consolidated with the Sixth District of Ohio. The Fourth District of Ohio was consolidated with the Tenth Dis-





trict of Ohio. The Fifteenth District of Ohio was consolidated with the Eighteenth District of Ohio.

The Twentieth District of Pennsylvania was consolidated with the Nineteenth District of Pennsylvania.

The First and Second Districts of West Virginia were consolidated into the West Virginia District.

AUGUST 7, 1883 The Second and Third Districts of Georgia were consolidated into the Georgia District.

The Tenth District of Indiana was consolidated with the Eleventh District of Indiana.

The Ninth Kentucky was consolidated with the Seventh and Eighth Districts of Kentucky.

The Third and Sixth Districts of Michigan were consolidated with the First and Fourth Districts of Michigan.

The First and Second Districts of Minnesota were consolidated into the Minnesota District.

The Fifth District of Missouri was consolidated with the Sixth District of Missouri.

The Thirtieth District of New York was consolidated with the Twenty-Eighth District of New York.

AUGUST 10, 1883 The Eighth District of Tennessee was consolidated with the Fifth District of Tennessee.

AUGUST 15, 1883 Wyoming became part of the Colorado Collection District.

The First and Second Alabama Districts were consolidated into the Alabama District.

The Eighth District of Pennsylvania was consolidated with the First and Ninth Districts of Pennsylvania. The Fourteenth District of Pennsylvania was consolidated with the Twelfth District of Pennsylvania. The Sixteenth District of Pennsylvania was consolidated with the Twenty-Second and Twenty-Third Districts of Pennsylvania.

The Third District of Virginia was consolidated with the Second and Sixth Districts of Virginia. The Fifth District of Virginia was consolidated with the Fourth District of Virginia.

AUGUST 20, 1883 Idaho and Utah became part of the Montana Collection District.

Dakota (became North and South Dakota in 1891) became part of the Nebraska Collection District.

The Fifth District of Iowa was consolidated with the Second and Fourth Iowa Districts.

SEPTEMBER 1, 1883 The Territory of Washington became part of the Oregon Collection District.

The First and Second Connecticut Districts were consolidated into the Connecticut District.

The Seventh District of Illinois was consolidated with the Eighth District of Illinois.

SEPTEMBER 5, 1883 Arizona became part of the New Mexico Collection District.

OCTOBER 1, 1883 Nevada was consolidated with the Fourth California District.







OCTOBER 13, 1883 The First and Third Districts of Wisconsin were consolidated into the First District.

NOVEMBER 1883 The work of canceling and redeeming stamps imprinted upon checks and returning them to claimants was suspended because the appropriation of the Bureau of Engraving and Printing was not sufficient to continue this work. The work began again in February 1884 after Congress made an additional appropriation.

JANUARY 1, 1884 The tax on bank deposits and capital ceased.

MAY 17, 1884 Congress passed an act authorizing the governor of the territory of Alaska to issue permits for the sale of liquor for medicinal, mechanical, or scientific purposes.

JULY 7, 1884 Congress approved an act providing appropriations for fiscal year 1885 which reduced the number of authorized revenue agents from 35 to 20 and limited their compensation to \$7 per day. Instead of allowing them actual and necessary travel expenses, a per diem allowance of \$3 per day was established.

JULY 31, 1884 Nevada was separated from the California Collection District while Utah was separated from the Montana District.

1884 The Attorney General put forth an opinion allowing owners of distilled spirits in bond, upon which the excise tax was due or would soon be due, an extension of seven months during which the owner

could export to avoid payment of the tax.

1884 The need for control of practitioners was recognized as early as this year when Congress authorized the Secretary of the Treasury to prescribe rules for recognition of attorneys and agents and to disbar or suspend any incompetent or disreputable person.

1884 One employee of the Bureau was killed during seizure of an illicit still.

1884 The Anti-Monopoly Party joined with the Greenback-Labor Party to form the People's Party, which supported many liberal measures, including a graduated income tax.

MARCH 19, 1885 Walter Evans resigned as Commissioner.

MARCH 20, 1885 Joseph S. Miller of West Virginia became Commissioner.

MARCH 30, 1885 The Oklahoma Territory was attached to the Kansas Collection District.

APRIL 1885 Attorney General A. H. Garland concluded that the law protecting revenue agents from arrest by state authorities did not apply to U.S. Marshals.

1885 One employee of the Bureau was killed in a raid on an illicit still.





1885 The consolidation of collectors' offices that took place over the last ten years resulted in the elimination of 98 separate offices. From a high of 225 collectors' offices in 1873, the Bureau of Internal Revenue ended this era with only 127 collectors' offices. As a dramatic example of these reductions, the State of New York began this period with 32 offices and ended with only 7 collectors' offices.





*The Supreme Court justices in 1895 who ruled the income tax provisions of the Wilson tariff bill unconstitutional.*

1886-1895

REVENUE EXPERIMENTATION:  
REGULATORY TAXES, EXPANDING DUTIES,  
AND SUPREME COURT RULINGS



Even without an income tax to collect and enforce, the Bureau of Internal Revenue remained busy with other duties during these years. Congress passed the first regulatory tax aimed more at regulating the production of margarine than raising revenue while an attempt to revive the income tax in the 1890s was knocked down as unconstitutional by the Supreme Court in 1895.



JUNE 30, 1886 All check and proprietary revenue stamps had to be redeemed by this date.

AUGUST 2, 1886 The Oleomargarine Tax was passed, representing the first regulatory tax, aimed primarily at keeping margarine from competing with butter. Instead, oleo production doubled in five years and almost \$1 million was collected in taxes during the first year.

An offshoot of this legislation was the establishment of an Analytical and Chemical Division in the Bureau and the authorization to hire a chemist and a microscopist.

The tax defined butter and imposed a tax on manufacture, sale, importation, and exportation of oleomargarine. The tax was set at a rate of 2 cents per pound or fraction thereof, and special license taxes of \$600 were placed on manufacturers, \$480 upon wholesale dealers, and \$48 upon retail dealers.

A tax of 15 cents per pound, in addition to the duty, was placed on imported oleomargarine. The act legalized the adulteration of butter with "additional coloring matter." This act went into effect October 31, 1886.

OCTOBER 1, 1886 The Office of Inspector of Tobacco was abolished in the Bureau of Internal Revenue. These duties were transferred to collectors in the district offices.

NOVEMBER 1886 The Bureau established a laboratory in response to passage of the oleomargarine tax to test margarine samples.

1886 One employee of the Bureau was wounded in a raid on an illicit still.

1886-1972 Special tax stamps were issued by Internal Revenue. After 1972, occupational taxes were controlled by IRS Forms 4732 and 4733 (Special Tax Stamp).

FEBRUARY 23, 1887 Congress passed an act prohibiting the importation of opium into the United States by Chinese. This act also made it a misdemeanor for United States citizens to traffic in opium in China.

MARCH 3, 1887 Congress passed an act providing for the redemption and sale of school-farm lands held by the United States acquired under the direct tax laws in Beaufort County, South Carolina. There were 18 of these school farms owned by the United States which had been rented from year to year by the Collector of Internal Revenue.

MARCH 3, 1887 The Tucker Act provided that actions against the United States for payment of refunds of taxes paid in dispute could only be brought if the amount in controversy did not exceed \$10,000. Such cases could be brought either in district courts or the Court of Claims. In a Court of Claims decision, no jury trial was available and no monetary limitation was imposed as a condition of jurisdiction.

MARCH 24, 1887 The Bureau issued regulations for the redemption and sale of school-farm lands describing the manner in which the





original owners, heirs-at-law, or grantees could obtain redemption.

MAY 21, 1887 By Executive order President Cleveland reduced the number of internal revenue districts from 84 to 62. Various changes between 1887 and 1914 brought the total number of districts up to 67.

JUNE 30, 1887 Nine Maryland and two Virginia counties were separated from the Delaware Collection District.

JULY 1, 1887 Nevada became part of the California Collection District once again.

Rhode Island became part of the Connecticut Collection District.

Delaware and the District of Columbia became part of the Maryland Collection District.

Maine and Vermont became part of the New Hampshire Collection District.

Mississippi became part of the Louisiana Collection District.

Utah became part of the Montana Collection District once again.

1887 Deputy Marshall John D. Trammell was killed and Revenue Agent W. H. Chapman was wounded in raids on illicit stills.

JULY 1, 1888 Congress prohibited the expenditure of any judicial funds for revenue collection.

OCTOBER 12, 1888 Congress passed an act "to prevent the manufacture or sale of adulterated food or drugs in the District of Columbia." This act gave the Bureau of Internal Revenue the duty of analyzing all samples submitted for inspection.

1888 Deputy Marshal Russell Wireman was killed in a raid on an illicit still while Deputy Collector B. B. Bouldin and Deputy Marshal O. F. Hightower were wounded in a raid.

MARCH 2, 1889 An act of Congress extended the time for redemption of school-farm lands held by the United States in Beaufort County, South Carolina until March 2, 1890.

MARCH 20, 1889 Joseph S. Miller resigned as Commissioner.

MARCH 21, 1889 John W. Mason of West Virginia became Commissioner.

AUGUST 14, 1889 Deputy Collector Frank Weller was killed in a raid on an illicit still.

JANUARY 28, 1890 The Senate passed a bill to credit and pay to the states and territories and the District of Columbia all monies collected under the direct tax levied by Congress on August 5, 1861.

FEBRUARY 25, 1890 Revenue Agent Sanford Kirkpatrick was wounded in a raid on a illicit still.

APRIL 10, 1890 The Internal Revenue laboratory at Chicago was transferred to the Treasury Department building in Washington, D.C. The new laboratory was ready for occupancy by July 1890.

SEPTEMBER 25, 1890 The time for redemption of school-farm lands in South Carolina was again extended to September 25, 1892.







OCTOBER 1, 1890 The McKinley Tariff Act increased protectionist tariff rates. The act imposed a tax of \$10 per pound on opium manufactured in the United States for smoking purposes and provided that no person could engage in such manufacture who was not a citizen of the United States and who had not paid the bond required by the Bureau.

Payment of the tax was indicated by affixing a special tax stamp to the package of opium. The act required that all manufacturers engaged in preparing opium for smoking do so under the surveillance of the Commissioner of Internal Revenue. This act also imposed a duty of \$12 per pound on imported opium, but admitted the importation of crude or unmanufactured opium free of duty.

Tobacco taxes were reduced from 8 to 6 cents per pound and all special taxes imposed upon dealers, manufacturers, and sellers of tobacco were repealed effective May 1, 1891. Wholesale dealers of oleomargarine were required to keep books and submit returns.

A bounty on producers of sugar from beets, sorghum, or sugarcane grown in the United States was included as part of this act. The bounty was to be determined by the Bureau of Internal Revenue. Despite protests from the Commissioner that this duty was not connected with the duties with which the Bureau was ordinarily charged, and his recommendation that it be transferred to the Secretary of Agriculture, the provision was retained and administered by the Bureau until its repeal on August 26,

1894. This was the first tariff to include a complete schedule of protective duties on agricultural products.

This tariff act also brought many changes in the laws relating to internal revenue procedures, although it did not affect the organization of the Bureau. Popular indignation over the increased tariff rates was reflected at the polls as McKinley was defeated for reelection and less than 90 of 332 Congressmen elected to the 52nd Congress were Republicans.

OCTOBER 1, 1890 The dates of the special tax year were changed from May 1-April 30 to July 1-June 30, to conform to the fiscal year.

DECEMBER 19, 1890 Deputy Collector C. D. Alexander and Deputy Marshal J.O. Thompson were wounded in a raid on an illicit still.

MARCH 2, 1891 Monies collected from the direct tax act of June 6, 1862 were returned to the states by an act of this date.

MARCH 3, 1891 Congress authorized the Commissioner of Internal Revenue to employ not more than 12 inspectors to inspect sugar upon which a bounty was required to be paid. These inspectors were paid \$5 a day.

This act also authorized the use of alcohol tax free in the manufacture of sugar from sorghum and included a provision for the withdrawal of distilled spirits from distillery warehouses, free of tax, to be used solely in the manufacture of sugar from sorghum.





MARCH 20, 1891 Special employee R.I. Barnwell was killed and Deputy Marshal T. L. Brim was wounded in a raid on an illicit still.

APRIL 28, 1891 A train wreck on the Baltimore and Ohio Railroad destroyed a shipment of internal revenue stamps valued at over \$29,000. Because there was no provision in the law authorizing the Treasury Department to credit the accounts of the Bureau with stamps destroyed under such circumstances, this event prompted the Bureau to request that Congress enact such a law.

JULY 1, 1891 The bounty on sugar enacted as part of the October 1890 tariff act became available to sugar producers.

JULY 1891 The Populist or Peoples' Party put forward an economic platform calling for the free and unlimited coinage of silver, a graduated income tax, postal savings banks, government ownership of railroads, and telephone and telegraph operations, prohibition of alien land ownership, immigration restriction, and an 8 hour work day at their first national convention in Omaha.

DECEMBER 28, 1891 An official audit of the revenue stamps maintained in the vaults of the Bureau was initiated.

DECEMBER 29, 1891 Deputy Marshal D. C. C. Jackson was wounded by illicit distillers in Dekalb County.

1891-1892 The Bureau established two new permanent laboratories in San Francisco and New Orleans and

seven temporary laboratories in Lehi, Utah; Norfolk, Nebraska; Fort Scott, Kansas; Sugarlands, Texas; St. Cloud, Florida; Syracuse, New York; and Montpelier, Vermont. The general laboratory in Washington, D.C. was also enlarged.

FEBRUARY 13, 1892 The large increase of chemical analysis work resulting from the provisions of the McKinley Tariff Act of October 1, 1890, led to the establishment of the Division of Chemistry on this date.

MAY 1, 1892 A new method of gauging distilled spirits was instituted, changing from rod or caliper measurement to weight.

MAY 5, 1892 An act required that all Chinese laborers in the United States apply to collectors of Internal Revenue for a certificate of residence.

MARCH 1, 1893 Congress passed the California Debris Control Act, imposing a tax on hydraulic mining, the debris from which flowed into or was in whole or in part restrained by dams or other works erected for the detention of debris by the California Debris Commission.

APRIL 18, 1893 John W. Mason resigned as Commissioner.

APRIL 19, 1893 Joseph S. Miller of West Virginia became Commissioner for a second time.

OCTOBER 1893-JANUARY 1894 The House Ways and Means Committee explored the possibilities and desirability of an income tax in a series of hearings and discussions.





NOVEMBER 3, 1893 Congress passed an amendatory act to the Chinese Exclusion Act of May 5, 1892 prohibiting the entrance of Chinese persons into the United States. The responsibility for registering Chinese laborers remained with the Bureau of Internal Revenue. A supporting act required Chinese laborers to apply for certificates of residence through their local internal revenue office.

DECEMBER 9, 1893 The Treasury Department appointed a committee to conduct an inventory of internal revenue stamps in the vaults of the Stamp Division. The inventory was conducted from December 27, 1893 through January 3, 1894.

DECEMBER 19, 1893 Representative John L. Bretz of Indiana introduced a bill which called for an income tax.

DECEMBER 1893 President Grover Cleveland bowed to party sentiment and in his annual message to Congress gave a surprise endorsement to a "small tax" on corporate income.

1893 Deputy Collector S. D. Mather and General Deputy Collectors J. L. Spurrier and S. C. Cardwell were killed in Tennessee during raids on illicit stills.

1893 The Bureau issued revised regulations providing for the analysis of milk samples in the District of Columbia to be conducted by the health office of the District, under the supervision and control of the Bureau. This action was taken in response to an increasing number of samples requiring analysis under the 1888 law which prevented the sale or manufac-

ture of adulterated food or drugs in the District of Columbia for which the Bureau's laboratories were not equipped to handle.

1894-1913 Income from customs and internal revenue were roughly equal during these years.

JANUARY 2, 1894 The House Ways and Means Committee agreed with a 7-4 vote to impose a tax of 2 percent on all net incomes of corporations and individual incomes over \$4,000. This marked the beginning of debate over the new tariff bill.

JANUARY 8, 1894 Ways and Means Committee Chairman William L. Wilson of West Virginia opened the debate on the Wilson tariff bill.

JANUARY 29, 1894 A proposal to amend the Wilson tariff bill to include an income tax provision levying a 2 percent tax on all income above \$4,000 for both individuals and corporations was put forth in the House of Representatives. Only one in every 100 Americans was wealthy enough to pay the tax at this rate.

JANUARY 30, 1894 The House voted 175-56 in favor of adding the income tax provision to the Wilson tariff bill.

FEBRUARY 1, 1894 The Internal Revenue amendment was formally passed by the House with a vote of 182-48. All but 10 Republicans refrained from voting. The Wilson tariff bill as a whole passed the House with a vote of 204-140, with 8 not voting, after a rousing speech by Ways and Means Chairman Wilson saying, "This is not a battle over percentages,





over this or that tariff schedule; it is a battle for human freedom.”

APRIL 2, 1894 The Wilson tariff bill was introduced into the Senate Finance Committee by Senator Daniel W. Voorhees of Indiana.

MAY 3, 1894 The Bureau completed its work associated with the registration of Chinese laborers. Over 106,000 registration certificates were applied for between the enactment of the Chinese Exclusion Act in November 1893 and this date.

JULY 3, 1894 The Senate passed the Wilson Tariff Act. This act revived the income tax, with a flat rate of 2 percent on corporate and individual incomes over \$4,000. Withholding was used for certain corporation dividends and the salaries of government employees.

The final vote for approval was 204-140 in the House and 39-34 in the Senate. The income tax provisions of this bill included confidentiality protections, stating that “it shall be unlawful for any collector... to divulge or to make known in any manner whatever not provided by law to any person... the amount or source of income, profits, losses, expenditures, set forth or disclosed in any income return by any person or corporation.”

AUGUST 8, 1894 Deputy Collector Wiley C. Lewis was wounded in Stokes County, North Carolina.

AUGUST 28, 1894 President Cleveland allowed the Wilson Tariff Act to become law without his signature. In addition to reinstating the

income tax, the act reduced the duty on imported opium from \$12 to \$6 per pound and provided that manufacturers using alcohol in the arts or medicinal compounds could receive a rebate or repayment of the tax paid on this alcohol.

This act allowed storekeepers and gaugers to perform the separate duties of a storekeeper at any distillery or to perform any of the duties of a gauger. The sugar bounty was repealed. The tax rate on distilled liquors increased from 90 cents to \$1.10 per gallon and the tax on playing cards was set at two cents per pack.

OCTOBER 6, 1894 The Secretary of the Treasury advised the Commissioner to take no action to enforce the provisions of the Wilson Tariff Act because Congress had appropriated no funds for its enforcement.

DECEMBER 22, 1894 The constitutional challenge to the income tax began with a bill filed in the Superior Court of the District of Columbia to restrain the Commissioner of Internal Revenue from collecting the tax imposed by the law on John G. Moore.

1894 The Bureau of Internal Revenue abolished the office of the Microscopist, leaving the entire work of the laboratory upon the Chemist.

JANUARY 11, 1895 The second challenge to the constitutionality of the income tax began with the filing of *Hyde v. Continental Trust*.

JANUARY 19, 1895 The case of *Pollock v. Farmers' Loan and Trust Company* was brought in challenge to





the income tax. Three constitutional grounds were cited for the challenge, 1) that it constituted a direct tax which did not meet the requirement that such measures be apportioned among the states on the basis of population, 2) that the exemption of incomes below \$4,000 violated the requirement that taxes be uniform, and 3) that it impinged on the rights of state and local governments by taxing the interest on obligations issued by these bodies.

JANUARY 25, 1895 Congress appropriated \$245,095 to defray the expenses of enacting and collecting the income tax in the Urgent Deficiency Bill. Shortly thereafter, an Income Tax Division was established in the Bureau of Internal Revenue.

JANUARY 28, 1895 The Supreme Court agreed to accept all three cases filed against the income tax (Moore, Hyde, Pollock).

FEBRUARY 21, 1895 A Joint Resolution extended the deadline for payment of income taxes enacted in the 1894 tariff bill from March 1 to April 15.

MARCH 1, 1895 Congress prohibited the sale of "spirituous, vinous, or malt liquors" and other intoxicating beverages in the Indian Territory.

MARCH 2, 1895 Congress passed an act to "regulate the sale of milk in the District of Columbia" which relieved the Division of Chemistry laboratory in Washington, D.C. of its duties related to the sale of milk. Congress also renewed the bounty paid to sugar producers.

MARCH 7, 8, 11, 12, 13, 1895 The first hearings on the income tax cases were held before the Supreme Court.

MARCH 15, 1895 Deputy Marshal W. N. Somers and Guide S. H. Coffey were wounded.

APRIL 8, 1895 With a 5-4 vote, the Supreme Court ruled that the income tax was unconstitutional on the grounds that it was a direct tax and had not been apportioned equally according to population as the Constitution prescribed.

APRIL 15, 1895 A rehearing of the income tax case was requested by Joseph H. Choate and his associates.

APRIL 25, 1895 Deputy Marshal S. H. Stalcup was killed.

MAY 6-8, 1895 The Supreme Court reheard the income tax case.

MAY 20, 1895 The Supreme Court upheld its original decision striking down the constitutionality of the income tax. In a surprise move, one judge reversed his position in favor of the tax, which in effect rendered every section of the 1894 income tax law unconstitutional.

NOVEMBER 6, 1895 Deputy Collector J. R. Ware was wounded in Harris County, Georgia.

1895 Before the end of the year, a constitutional amendment to legitimize an income tax and overturn the recent Supreme Court decision was introduced in Congress. This effort was not successful.







*Employees of the Bureau of Internal Revenue count revenue stamps for distribution to field offices where they would be sold to local businessmen.*

1896 - 1909

THE REBIRTH OF THE INCOME TAX:  
CONGRESS PROPOSES A CONSTITUTIONAL  
AMENDMENT



The economic demands of the Spanish-American War prompted Congress to raise excise taxes on alcohol, tobacco, and other manufactured goods but did not prompt an immediate return to the income tax. Under the leadership of President Theodore Roosevelt, popular support for an income tax was revived in the first years of the twentieth century and by 1909 Congress had passed an amendment to the Constitution which would allow for an income tax without apportionment among the states. Only one state ratified the proposed amendment that year.



MARCH 9, 1896 Deputy Collectors Walter F. Davis and James S. Smith were wounded at Kernersville, North Carolina.

APRIL 6, 1896 Congress passed a joint resolution providing for the destruction of income tax returns, copies, statements, and all related records from the Civil War income tax.

MAY 5, 1896 The Commissioner delivered all income tax returns and related documents to a committee appointed by the Secretary of the Treasury which promptly destroyed the records by burning them.

MAY 6, 1896 The position of internal revenue agent was brought into the classified Civil Service through a revision of the civil service rules.

JUNE 3, 1896 The act authorizing a rebate on alcohol used in the arts or for medicinal purposes was repealed.

JUNE 6, 1896 A act defined cheese and imposed a tax of one cent per pound on the manufacture, sale, importation, and exportation of filled cheese. Imported filled cheese was taxed at the rate of eight cents per pound.

JULY 13, 1896 Deputy Collector E. T. McAfee was wounded in an ambush while on raid near Buford, Guinnett County.

AUGUST 7, 1896 The Division of Sugar Bounty was discontinued.

OCTOBER 2, 1896 Deputy Marshal J.C. Parish and Chief of Police of Florence, South Carolina, were wounded by B. L. Jones, an illicit distiller resisting arrest.

NOVEMBER 26, 1896 Joseph S. Miller resigned as Commissioner.

NOVEMBER 27, 1896 William St. John Forman of Illinois became Commissioner.

DECEMBER 4, 1896 Deputy Collector Moffitt was killed by illicit distiller Lee Turner in Montgomery County, North Carolina.

1896 The Supreme Court upheld the constitutionality of state inheritance taxes in *United States v. Perkins*.

1896 The income tax was a major issue in this year's presidential election with William J. Bryan running against William McKinley.

JANUARY 30, 1897 Congress enacted a law prohibiting the sale of intoxicating beverages to Indians in the Indian Territory.

MARCH 4, 1897 In his inaugural address, President McKinley stressed the immediate need to maintain government credit by securing an adequate income through a system of taxation, external or internal, or both.

JULY 24, 1897 The Dingley Tariff Bill imposed a duty of \$1 per pound on imported opium, crude or unmanufactured; a tax of \$3 per thousand on large cigars and cigarettes; \$1 per thousand on cigarettes and small cig-





ars. This was the first act that distinguished between cigarettes and cigars, defining a cigar as a cigarette wrapped in tobacco. Previous acts referred to "tobacco cigarettes."

**JULY 27, 1897** President McKinley issued an Executive Order excepting 438 deputy collectors in the Bureau of Internal Revenue, the Bureau of Customs, and other offices of the Treasury Department from civil service laws.

**JULY 27, 1897** Posseman F. T. Harper was wounded near Kingston, North Carolina.

**NOVEMBER 30, 1897** Deputy Collector A. A. Phillips and Posseman D. B. Stewart were wounded near Greenville, North Carolina.

**DECEMBER 31, 1897** William St. John Forman resigned as Commissioner.

**JANUARY 1, 1898** Nathan B. Scott of West Virginia became Commissioner.

**APRIL 25, 1898** Chairman of the Ways and Means Committee Nelson Dingley of Maine introduced a war revenue measure that he estimated would produce an additional \$100 million. It included excise taxes, the sale of war bonds, but no income tax.

Special taxes were imposed on bankers and brokers, but also on theaters, circuses, bowling alleys, billiard parlors. Rates were doubled on tobacco, beer, and liquor, while stamp taxes were instituted on bank

checks, stocks, bonds, insurance policies, legal documents, chewing gum, and wine.

**APRIL 29, 1898** Congressmen Joseph W. Bailey and Benton McMillan led an effort to add an income tax amendment to Dingley's revenue bill, but it was rejected 134-171.

**JUNE 13, 1898** Congress passed the War Revenue Act to provide revenue to support the Spanish-American War. The act doubled taxes on beer and tobacco products. Tobacco taxes were increased from 6 to 12 cents per pound; taxes on large cigars and cigarettes were increased from \$3 to \$3.60 per thousand and from \$1 to \$1.50 on small cigarettes.

Special taxes on tobacco manufacturers, dealers, and sellers were reimposed. This act imposed a tax upon documents, instruments, and special taxes on bankers, proprietors of theaters, museums, concert halls, circuses, bowling alleys and billiard rooms. User fees were imposed on federal recreational facilities. This act also imposed a tax on chewing gum at a rate of 4 cents per \$1 of value, defined mixed flour and imposed a tax upon its manufacture, sale, importation and exportation.

Despite this act, the major portion of war expenses were paid through loans rather than taxes. The Secretary of the Treasury was authorized to issue up to \$100 million in certificates of indebtedness and up to \$400 million in 3 percent 10 to 20 year bonds.

**JUNE 27, 1898** The Bureau issued regulations relating to the tax on chewing gum, requiring that a pro-





prietary stamp be affixed to each package of gum.

AUGUST 27, 1898 Deputy Marshals B. F. Taylor and Joe Dobson were killed while Possemen Clay Renfrow and Sie Lawrence were wounded in Pope County, Arkansas.

SEPTEMBER 9, 1898 Possemen J. A. Robertson and J.F. Miller were wounded in Polk County, NC.

1898 The Supreme Court upheld the constitutionality of state inheritance taxes in *Magoon v. Illinois Trust and Savings Bank*.

FEBRUARY 28, 1899 Nathan B. Scott resigned as Commissioner.

MARCH 1, 1899 George W. Wilson of Ohio became Commissioner.

APRIL 17, 1899 Deputy Marshall Taylor Harris was wounded in Haywood County, NC.

APRIL 21, 1899 Sheriff J.S. Dawson was killed in Haywood County, NC.

APRIL 24, 1899 Associated Press dispatches announced the seizure of hundreds of thousands of cigars manufactured at Lancaster, Pennsylvania, by the Jacobs and Kendig firm, bearing counterfeit revenue stamps. The discovery of counterfeit stamps was made by an internal revenue employee in Washington, D.C., and not in the districts in which these cigars were located. William M. Jacobs and W. L. Kendig were arrested. This was the first case of counterfeiting cigar stamps in the history of the Bureau.

JUNE 7, 1899 A shortage in the stamp account of the Bureau was caused by the theft of beer stamps amounting to \$10,000.

JULY 5, 1899 The United States District Court in the District of Kentucky upheld the position of the government and the Bureau of Internal Revenue to not release tax documents, furnish copies of returns, or testify.

AUGUST 1899 The United States District Court, Eastern District of Pennsylvania, ruled in the case of *U.S. v. Dougherty* that the oleomargarine tax was constitutional and that the primary object of the oleomargarine law was to raise revenue. Dougherty had contended that rather than being a revenue measure, the oleomargarine law was a police regulation which Congress had no power to enact.

1899 The United States District Judge in Connecticut ruled that a collector of the revenue could not compel a taxpayer to appear and testify before him as to the correctness of returns made under the oleomargarine law, judging that the provisions granting the collector the authority to summon persons before him for examination applied to objects of taxation upon which the tax was collected by the method of return and assessment and not to those upon which the tax paid by a stamp.

1899 A tax was levied on all opium manufactured in the United States for smoking purposes.





April 9, 1900 The Supreme Court ruled that Collector's records were executive documents of the United States and not releasable outside the Department of the Treasury.

APRIL 16, 1900 The Supreme Court decided that express companies were not forbidden to shift the burden of the stamp tax by a reasonable increase in rates. The question arose under the provisions of the War Revenue Act of 1898 as to whether the shipper or the carrier had to pay for the stamp required on transported goods.

APRIL 30, 1900 The Collection District of Hawaii was established in Honolulu.

MAY 14, 1900 The Supreme Court ruled that legacy taxes were constitutional. The tax was held not to be a direct tax within the meaning of the Constitution, but rather, a duty or excise.

NOVEMBER 27, 1900 George W. Wilson resigned as Commissioner.

NOVEMBER 29, 1900 Deputy Collectors John H. Chapman and Charles Gee were wounded in a raid in Northampton County, North Carolina.

DECEMBER 12, 1900 Deputy Collector John F. Lanier was wounded during a raid in Alabama and died from his wounds on December 24.

DECEMBER 20, 1900 John W. Yerkes of Kentucky became Commissioner.

1900 An additional deputy commissioner was authorized.

JANUARY 1901 An inventory of all revenue stamps in the Treasury Department vault was made for accounting purposes.

MARCH 2, 1901 Congress passed the War Revenue Reduction Act which reduced or repealed most taxes imposed during the Spanish-American War, but retained legacy taxes, excise taxes on oil and sugar refining companies, and special annual duties on bankers and brokers. This act reduced taxes on cigars and cigarettes and provided for a 20 percent discount on revenue stamps to manufacturers of tobacco and snuff. Most of the tax reductions of this act took effect July 1, 1902.

MARCH 21, 1901 Deputy Marshal W. A. Hoss was wounded and Deputy Marshal A.S. Whiteley was killed during a raid in Lincoln County, Georgia.

JULY 1, 1901 North and South Dakota were detached from the Nebraska Collection District and constituted as the North and South Dakota Collection District.

JULY 23, 1901 Posseman Cord Mackie and Deputy Marshal Price were wounded in a raid in Putnam County, Tennessee.

JANUARY 11, 1902 Deputy Marshall Holsonback was killed in a raid in Marshall County, Alabama.

JANUARY 31, 1902 Representative Sereno E. Payne of New York, Chairman of the House Ways and Means







Committee, introduced a bill to repeal all Spanish-American War revenue taxes.

MARCH 8, 1902 Congress passed "an act temporarily to provide revenue for the Philippine Islands, and for other purposes." The act stated, in part, "that all the duties and taxes collected in the United States upon articles coming from the Philippine Archipelago... shall not be covered into the general fund of the Treasury of the United States but shall be held as a separate fund and paid into the treasury of the Philippine Islands to be used and expended for the government and benefit of said islands."

APRIL 12, 1902 The bill to repeal all war revenue taxes became law. All legacy taxes were repealed as part of this measure. This bill reduced the tax on tobacco and snuff to 6 cents per pound and provided for a rebate of tax to manufacturers or dealers on all original and unbroken factory packages of smoking and manufactured tobacco and snuff held by them on the effective date of this act, July 1, 1902.

APRIL 12, 1902 An act of this date, to take effect on July 1, 1902 set the rate of tax on tobacco, snuff, cigars, and cigarettes as follows: 6 cents per pound on smoking and chewing tobacco and snuff; \$3 per thousand on large cigars; 54 cents per thousand on small cigars; \$1.08 per thousand on small cigarettes; and \$3 per thousand on large cigarettes.

MAY 9, 1902 The amendatory Oleomargarine Act, effective July 1, 1902, abolished the previous tax rate of two cents per pound on oleomargarine

and established two new tax rates. The act placed a tax of 10 cents per pound on oleomargarine that was artificially colored. The act also provided for a tax of one-fourth of one cent per pound on oleomargarine produced free from artificial coloration that caused it to look like butter of any shade of yellow.

JUNE 27, 1902 Congress passed an act authorizing the refund of taxes collected upon bequests for legacies for uses of a religious, literary, charitable, educational character, or for the encouragement of art, etc., under the act of June 13, 1898.

JULY 1, 1902 Special taxes on the occupations of manufacturers and dealers in tobacco were abolished.

SEPTEMBER 1, 1902 The state of Washington and the territory of Alaska were detached from the Oregon Collection District and constituted as the Washington Collection District.

1902 Legal opinion in the case of *Patton v. Brady* held that if a collector died while suit was pending an action could be revived against his estate.

FEBRUARY 14, 1903 Congress approved an act creating the Department of Commerce and Labor, to include the Commissioner-General of Immigration. This new organization assumed responsibility for the registration of Chinese persons, which had been conducted by the Bureau of Internal Revenue.





JULY 1, 1903 All records, duplicate certificates of Chinese residency etc., from the Bureau of Internal Revenue were transferred to the Commissioner-General of Immigration.

NOVEMBER 22, 1903 Deputy Collector George T. Rives was seriously wounded while on a raid for the seizure of illicit stills near Marysville, Virginia.

FEBRUARY 10, 1904 At the request of the Commissioner, the Treasury Department appointed three expert accountants to make a count of the revenue stamps retained in the Treasury Department vault and to verify all books and accounts.

MAY 31, 1904 The Supreme Court upheld the constitutionality of the oleomargarine act of May 2, 1902 in the case of *Leo W. McCray v. The United States*.

OCTOBER 1904 The Supreme Court held that "when any substance, although named as a possible ingredient of oleomargarine, substantially serves only the function of coloring the mass... is an artificial coloration," in upholding the constitutionality of the oleomargarine tax statutes.

1904 The United States initiated an international movement to suppress the growing opium traffic.

1905 Posseman John Carver was shot and killed while on a raid with Deputy Collector Spears for seizure of an illicit distillery near the Tennessee-North Carolina state line.

JULY 4, 1906 President Theodore Roosevelt announced his support for graduated income and inheritance taxes in a speech celebrating the laying of the cornerstone for the new House of Representatives building.

JUNE 7, 1906 Congress passed an act providing that alcohol could be denatured, free of tax, only in denaturing bonded warehouses located on the distillery premises where the alcohol was produced. Under this law, only large distillers who produced alcohol from grain or molasses were able to take advantage of this privilege. The act took effect January 1, 1907 and was commonly referred to as the "free alcohol bill."

SEPTEMBER 26, 1906 The Bureau of Internal Revenue issued the first of a series of explanatory circulars regarding the denatured alcohol act of June 7, 1906. This circular explained that small distilleries which had been rendered useless for producing alcohol for beverage purposes by reason of local prohibitory laws might be profitably employed in the distillation of spirits for denaturation.

1906 The Analytical and Chemical Division was transferred to the Bureau of Chemistry in the Agriculture Department.

1906 President Theodore Roosevelt brought the deputy collectors of the Bureau of Internal Revenue into the classified civil service system.

MARCH 2, 1907 Congress approved an act allowing the establishment of small farm distilleries, with a daily capacity of not more than 100 proof





gallons. Distilleries of this class were exempt from many of the requirements relating to grain and fruit distilleries. This act also authorized the use of denatured alcohol in the manufacture of ether or chloroform and other chemical substances where the alcohol used was changed into some other chemical substance. This act amended the act of June 7, 1906 and went into effect on September 1, 1907.

APRIL 30, 1907 John W. Yerkes resigned as Commissioner.

JUNE 5, 1907 John G. Capers of South Carolina became Commissioner.

JUNE 1907 President Theodore Roosevelt declared that "most great civilized countries have an income tax and an inheritance tax. In my judgment both should be part of our system of federal taxation."

NOVEMBER 25, 1907 The Second and Fifth Districts of Tennessee were consolidated.

1907 Alabama and Georgia adopted state prohibition laws.

JANUARY 31, 1908 President Roosevelt recommended passage of a direct income and inheritance tax in his presidential address.

MAY 27, 1908 The American Opium Commission was established. A problem arose when it was realized that despite its efforts to curtail opium traffic, the United States still allowed the importation of smoking opium as long as the appropriate taxes were

paid. This led to the Opium Exclusion Act the following year.

JUNE 1, 1908 The state of Mississippi was added to the Alabama Collection District. Prior to this, Mississippi had been attached to the Louisiana Collection District.

JULY 21-SEPTEMBER 8, 1908 Commissioner John Capers and Chief Chemist Crampton travelled to Europe to gather information on laws concerning the tax-free use of alcohol for industrial purposes in other countries.

1908 By this year, Democratic and Socialist party members called for an income tax while the Roosevelt-Taft wing of the Republican party expressed sympathy for the idea.

FEBRUARY 4, 1909 An act this date provided that any article containing alcohol brought from Puerto Rico into the United States for consumption or sale would be taxed at the rate of \$1.10 per proof gallon to be collected at the port of entry by the collector of internal revenue.

FEBRUARY 9, 1909 Congress approved the Opium Exclusion Act which prohibited the importation and use of opium for other than medicinal purposes after April 1, 1909.

MARCH 17, 1909 Ways and Means Committee Chairman Payne reported a bill that reinstated the federal inheritance tax. This bill passed the House by a vote of 217-161 on April 9.





MARCH 25, 1909 Senator Thomas P. Gore of Oklahoma introduced a resolution for an income tax amendment into the Senate.

MARCH 29, 1909 Tennessee Representative Cordell Hull appealed for immediate adoption of an income tax as "the fairest, the most equitable system of taxation that has yet been devised."

APRIL 15, 1909 Democratic Senator Joseph W. Bailey of North Carolina introduced an amendment to the tariff bill that copied the 1894 revenue act except for stipulating a 3 percent tax on incomes over \$5,000 and exempting state, county, and municipal bonds. This was followed soon by a Republican proposal for a graduated tax ranging from 2 percent on incomes over \$5,000 to 6 percent on those over \$100,000.

APRIL 28, 1909 Senator Norris Brown of Nebraska introduced a resolution for an income tax amendment into the Senate. He introduced a second resolution on June 11, 1909, but the Senate Finance Committee buried these and Senator Gore's resolutions.

MAY 7, 1909 Ex-Deputy Marshal A. W. Holden was killed on a raid on an illicit distillery near Port Towson, Oklahoma.

MAY 1909 Republican insurgents and Democrats agreed to unite behind a comprehensive plan that was close to Bailey's original proposal for an income tax. This group included all Democrats and 19 Republicans.

JUNE 16, 1909 President Taft sent a message to Congress stressing the dangers to popular confidence in the Supreme Court which would arise if Congress were to enact a general income tax in the hope that the Court would reverse itself. He suggested the adoption of a joint resolution proposing to the states a federal income tax amendment to the Constitution. He also proposed a 2 percent excise tax on the net incomes of all corporations except national banks, savings banks, and building and loan associations.

JUNE 17, 1909 In response to Taft's message, Norris Brown introduced a third resolution for a constitutional amendment which read, "the Congress shall have the power to lay and collect direct taxes on incomes without apportionment among the several states according to population." The Senate Finance Committee amended this by striking out the word "direct" and adding "from whatever source derived" after "incomes." These changes were introduced by Senator Nelson Aldrich of Rhode Island.

JUNE 28, 1909 Senator Aldrich reported the Finance Committee's resolution of the income tax amendment to the Senate.

JULY 1, 1909 The Sixth District of California was formed.

JULY 5, 1909 The Senate approved the constitutional amendment proposal with a vote of 77-0.



JULY 8, 1909 The Senate passed the Payne-Aldrich tariff bill which included a corporation excise tax by a vote of 45-34. This bill included a specific provision that such returns be made public... "the return... shall constitute public records and be open to inspection as such." The public nature of the returns was short-lived—it was changed in 1910. The Senate version of this bill contained 847 amendments to the Payne bill with the inheritance tax feature deleted.

JULY 12, 1909 After only four hours of debate, the House approved the proposed constitutional amendment by a vote of 318-14.

JULY 31, 1909 The President signed the Payne-Aldrich Act.

AUGUST 5, 1909 The Corporation Excise Tax became law, marking the beginning of our modern system of corporate income taxation. It was called an "excise on the privilege of doing business," and imposed a tax of 1 percent on net corporation incomes above \$5,000. A Corporation Tax Division was organized to handle collections for the new levy.

Outgoing President Roosevelt had persuaded Congress to enact this excise tax on corporate income. The tax brought in \$11 million the first year and remained in effect until 1912. This new law also authorized state tax officials to inspect federal corporate tax returns and provided for the collection of internal revenue taxes on the tobacco, cigars, and cigarettes imported into the United States from the Philippine Islands.

AUGUST 10, 1909 Alabama became the first and only state this year to ratify the 16th Amendment. It would take until 1913 to achieve sufficient state votes to add the amendment to the Constitution.

AUGUST 31, 1909 John G. Capers resigned as Commissioner.

SEPTEMBER 1, 1909 Royal E. Cabell of Virginia became Commissioner.

SEPTEMBER 2, 1909 Special employee D. A. Kanipe was shot and wounded on a raid near Tryon, North Carolina.

DECEMBER 22, 1909 Deputy Collector L. C. Hill was shot and wounded on a raid on Laurel Creek, Kentucky by an accidentally discharged rifle.

DECEMBER 24, 1909 President Taft issued his decision in a prolonged controversy as to what composed whiskey, to be effective July 1, 1910.

1909 Virginia enacted a state income tax, but huge numbers of its citizens refused to pay it. Tax agents travelled into rural counties to collect it and some were never heard from again. The tax was repealed in 1910 after less than \$100,000 was collected.

1909 Chairman of the House Ways and Means Committee Payne warned that the imposition of a federal income tax would turn America into a "nation of liars."

1909 Tennessee passed a prohibition law.







*Taxpayers crowd into their local internal revenue collector's office to fill out new tax forms to meet the filing deadline of March 15.*

*1910 - 1918*

REVENUE EXPANSION:  
A CONSTITUTIONAL AMENDMENT AND WORLD  
WAR I PROVIDE THE PUSH



Four years after its proposal, enough states ratified the 16th amendment to make it part of the Constitution. Within a few months Congress enacted a new income tax featuring progressive rates of one to seven percent on incomes above \$3,000. The average annual income that year was \$800. As a result, very few Americans faced paying the income tax. In addition to reinstating the income tax, the year 1913 saw the birth of the 1040 form.



MARCH 1, 1910 The first corporate income tax returns were due on or before this date. The tax was to be assessed on or before June 1 and the amount of tax collectible on or before June 30, 1910.

MARCH 17-18, 1910 Fifteen cases filed by corporations challenging the 1909 corporation tax's constitutionality were consolidated as *Flint v. Stone Tracy Company* and scheduled for argument before the Supreme Court this month. They were rearranged in January 1911 since the Court could not arrive at a decision.

APRIL 13, 1910 Deputy Collector W. A. Anderson was killed on a raid in Walker County, Alabama. Posseman Putnam was shot and wounded in the hip during the same raid.

JUNE 25, 1910 The Deficiency Appropriation Act authorized the Commissioner to appoint internal revenue agents and inspectors, with the approval of the Secretary, to carry out the provisions of the Corporation Excise Tax Act of 1909. These appointments were required to be made in accordance with civil service regulations.

DECEMBER 19, 1910 Deputy Collector T. H. Baker was accidentally shot and wounded at Memphis, Tennessee.

1910 The Appropriations Act of 1910 provided that "any and all such returns shall be open to inspection only upon the order of the President under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President."

1910 Representative David Foster of Vermont introduced three measures to eliminate the non-medical use of narcotics. Together, the bills amended previous legislation prohibiting the importation of opium and other narcotics for nonmedical uses by imposing taxes and new regulations on their manufacture and distribution. The measure died in the Ways and Means Committee.

1910 The tax on the manufacture of filled cheese under the act of June 6, 1896, was discontinued.

FEBRUARY 6, 1911 Oklahoma was detached from the District of Kansas and established as a separate district.

MARCH 2, 1911 An act authorized acceptance of certified checks drawn on national and state banks for payment of internal revenue taxes. This act formalized a long accepted practice.

MARCH 13, 1911 The Supreme Court sustained the constitutionality of the corporation excise tax law in *Flint v. Stone Tracy Company*. The Court ruled unanimously that the 1909 corporation tax was constitutional and not a direct tax, but "an excise on the particular privilege of doing business in a corporate capacity" and that the excise was on property measured by income of the parties subject to the tax.

APRIL 17, 1911 Accountants employed by the Bureau of Internal Revenue were brought into the classified civil service system by an executive order and appointed as





revenue agents under the corporation tax law.

MAY 29, 1911 The Attorney General approved the Bureau's ruling that the 1909 act prohibiting the importation of opium for other than medicinal purposes did not repeal the provisions of the 1890 act which provided for the manufacture and taxation of opium for smoking purposes.

JUNE 29, 1911 Posseman G.S. Marsh was shot and wounded in a raid in Van Buren County, Tennessee.

AUGUST 17, 1911 Deputy Collector Henry was shot during a raid on an illicit distillery in Wilkes County, North Carolina.

NOVEMBER 1, 1911 The Bureau adopted a new system of gauging spirits by weight rather than by rod.

1911 Since this year, collections from internal revenue have always exceeded customs revenue.

JANUARY 9, 1912 A disastrous fire occurred in a large office building in New York City destroying the records of many corporations. Thus, it was impossible for such corporations to make complete returns of annual net income within the period prescribed by law.

APRIL 9, 1912 A prohibitive tax on white phosphorous matches was passed.

OCTOBER 1, 1912 As a result of legislation limiting the number of collection districts to not more than

63, four districts were consolidated with other districts. These included the Fourth California, the Twelfth Pennsylvania, South Carolina, and the Fourth Texas.

FEBRUARY 3, 1913 The minimum number of states finally ratified the Sixteenth Amendment under which Congress received constitutional authority to levy taxes on the income of individuals and corporations. The amendment authorized Congress "to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration." By March, a total of 42 states had ratified the amendment—six more than required. The 36th state to ratify, which provided the  $\frac{3}{4}$  majority needed, was Wyoming.

FEBRUARY 25, 1913 The Sixteenth Amendment officially became part of the Constitution. States voting for ratification included Alabama (1909); Georgia, Illinois, Kentucky, Maryland, Mississippi, Oklahoma, South Carolina, and Texas (1910); Arkansas, California, Colorado, Idaho, Indiana, Iowa, Kansas, Michigan, Missouri, Montana, Nebraska, Nevada, North Carolina, North Dakota, Ohio, Oregon, Tennessee, Washington, and Wisconsin (1911); Arizona, Louisiana, Minnesota, and South Dakota (1912); Delaware, Maine, New Hampshire, New Jersey, New Mexico, Vermont, West Virginia, and Wyoming (1913).

MARCH 4, 1913 In his inaugural address, President Woodrow Wilson charged that the tariff, "cuts us off





from our proper part in the commerce of the world, violates the just principles of taxation, and makes the government a facile instrument in the hands of private interests." On his first day in office, the President called a special session of Congress to take up tariff reform.

APRIL 8, 1913 President Wilson addressed a joint session of Congress on the need for tariff reform.

APRIL 12, 1913 Ways and Means Committee Chairman Oscar W. Underwood of Alabama introduced a bill which provided for lowering tariff rates from the 40 percent level of the Payne-Aldrich Tariff to approximately 29 percent. To offset the loss of revenue, the bill included an income tax provision, the first to be written under the 16th amendment.

APRIL 27, 1913 Royal E. Cabell resigned as Commissioner.

APRIL 28, 1913 William H. Osborn of North Carolina became Commissioner.

MAY 8, 1913 The House passed the Underwood tariff bill and sent it to the Senate Finance Committee. No attempt was made to remove the income tax provision from the bill. This led to the first income tax to go into effect since the expiration of Civil War income taxes in 1872.

MAY 1913 Deputy Collector U.C. McFarland was wounded at a distillery in Meshack Creek Hollows, Kentucky. Posseman J. W. Ison was wounded at a distillery in North Carolina this same month.

JULY 1, 1913 The tax on white phosphorous matches took effect.

AUGUST 1, 1913 The Fourth District of Iowa was consolidated with the Third District of Iowa.

SEPTEMBER 1, 1913 The District of South Carolina was reestablished. Previously South Carolina had been part of the Fourth District of North Carolina.

SEPTEMBER 9, 1913 The Senate approved the Underwood-Simmons tariff bill. This also marked the first surtaxes ever enacted by Congress.

OCTOBER 3, 1913 The Underwood-Simmons tariff bill, with income tax sections drafted by Representative Cordell Hull, became law with President Wilson's signature. The tax was 1 percent on net personal incomes over \$3,000 (\$4,000 for married couples), with a surtax of up to 6 percent on incomes over \$500,000. The maximum rate of tax on individuals was 7 percent on taxable income over \$500,000.

This bill also repealed the corporation tax of 1909 and imposed a new tax of 1 percent on the net income of corporations. This act authorized the appointment by the Commissioner, with the approval of the Secretary of the Treasury, of all necessary agents and inspectors to carry out the income tax laws. The concept of total secrecy for individual tax returns was new with this act.

The average American worker, putting in 12 hours a day and earning \$800 a year, remained unaffected by the tax. Federal judges,





state officials, and the President of the United States were exempt from paying the tax on their public salaries.

OCTOBER 22, 1913 All deputy collectors of internal revenue were excepted by statute from the civil service laws.

NOVEMBER 1, 1913 Collection of tax at the source (withholding) began with 1 percent of taxable net income to be withheld.

1913 The Commissioner was given the power to revoke the exempt status of any organization that failed to meet the exemption requirements of the code.

1913 Upon passage of the income tax law of 1913, a Personal Income Tax Division was established in the Bureau of Internal Revenue. A Correspondence Unit with 30 employees was created to answer a flood of questions about the law and its enforcement. Also, a special division was established within the General Counsel area to prepare opinions interpreting the internal revenue laws. By the end of fiscal year 1913 the administrative force in Washington, D.C. numbered 277 employees while the field force numbered 3,723.

JANUARY 5, 1914 The Treasury Department unveiled the filing form for the new income tax. Together with its instructions, it was four pages long. The form was numbered 1040 in the ordinary stream of numbering forms in sequential order by the Bureau of Internal Revenue. In

the first year, no money was to be returned with the forms. Instead, each taxpayer's calculations were verified by field agents, who sent out bills on June 1. Tax payments were due by June 30.

JANUARY 5, 1914 Posseman C.E. McRight was wounded in a raid on a distillery near Allsboro, Alabama.

JANUARY 7, 1914 The Secretaries of State, Treasury, and Commerce issued joint regulations to limit the exportation of opium and cocaine and any salt derivative or preparations of ether, only to those countries which had laws regulating the handling of narcotic drugs. Exportation was only permitted upon proper certification of the purchaser's qualifications.

JANUARY 17, 1914 Congress passed the Narcotic Drugs Import and Export Act which prohibited the importation, exportation, transshipment of opium for other than medicinal purposes in an attempt to regulate the manufacture of smoking opium within the United States. This act repealed the provisions of the McKinley Tariff Act relating to the taxation of smoking opium and increased the rate of tax from \$10 to \$300 per pound and the bond required of opium manufacturers from not less than \$5,000 to not less than \$100,000.

MAY 9, 1914 A new method of counting stamps was initiated for stamps received from the Bureau of Engraving and Printing. This provided an accurate count of all stamps before they were shipped to Col-







lectors. The change increased the counting capacity of the 16 counters by 50 percent.

JULY 1, 1914 The Comptroller of the Treasury ruled that the practice of forwarding to the Treasury Auditor the book stamps and coupons returned from collectors which were not charged to the official who had received them be changed so that such stamps and coupons would be held by and charged to the Commissioner, whose certificates would be accepted by the Auditor as sufficient evidence upon which to give credit to collectors for stamps returned to the Treasury.

JULY 16, 1914 The number of districts was limited to 64.

AUGUST 18, 1914 The Secretary of the Treasury delegated to the Commissioner the execution of the United States Cotton Futures Act enacted on this date. This act was designed to tax the privilege of dealing on exchanges, boards of trade, and similar places in contracts of sale of cotton for future delivery.

SEPTEMBER 4, 1914 President Wilson urged Congress to raise an additional \$100 million through internal taxes to meet the loss in revenue brought on by World War I financing.

OCTOBER 1, 1914 The number of collectors increased to 64 as part of the appropriations act approved in July 1914.

OCTOBER 22, 1914 Congress responded to President Wilson by passing the War Revenue Tax Act of 1914, which levied various internal excise taxes to make up for lost revenue from diminished customs receipts as a result of World War I. The bill was in large part a renewal of the Spanish-American War Revenue Act and provided for excises on fermented liquors, wines, toilet articles, and chewing gum. It also imposed special taxes on bankers, brokers, tobacco dealers and manufacturers, owners of amusement places, and reintroduced stamp taxes on legal documents, telegraph and telephone messages.

These taxes were set to expire on December 31, 1915. Bankers were required to pay a tax of \$1.00 for each \$1,000 of capital used or employed. Stamp taxes of 5 cents on each \$100 of face value, or fraction thereof, of certificates of stock were also part of this law.

OCTOBER 23, 1914 Taxes on wines, grape brandy, and fermented liquors became effective.

NOVEMBER 1, 1914 Special taxes enacted as part of the War Revenue Tax Act became effective.

DECEMBER 1, 1914 Stamp taxes on articles enumerated on Schedules A and B enacted as part of the War Revenue Tax Act became effective.

DECEMBER 13, 1914 The contents of the two stamp vaults in the Treasury Building were moved to unfinished vaults in the Auditors' Building, where the vault section of the Stamp Division had been located.





DECEMBER 17, 1914 Congress passed the Harrison Anti-Narcotics Act to regulate the sale of opium. Under this act, all persons engaged in the importation, manufacture, or sale of narcotics were required to register and pay an occupational tax as well as a commodity tax on drugs imported or manufactured in the United States.

The internal revenue tax on opium was set at 1 cent per ounce, with the tax paid by the importer, manufacturer, or producer by means of stamps purchased from a revenue agent and affixed to seal the container closed. The special occupational taxes established for handling of opium ranged from \$24 per year for importers to \$1 per year for physicians, dentists, veterinarians, or persons engaged in research. Other rates included \$12 per year for wholesale dealers and \$3 per year for retail dealers. This act gave the Commissioner responsibility for regulating the domestic manufacture and use of some narcotics and opium.

1914 The Bureau of Internal Revenue eliminated the practice of destroying sheet revenue stamps returned in broken lots by Collectors. Instead, such stamps were stored in the stamp vaults and reissued to Collectors.

FEBRUARY 10, 1915 J.S. West, acting as posseman, was killed while raiding a still in Putnam County, Tennessee.

MARCH 1, 1915 The Harrison Anti-Narcotics Law took effect.

APRIL 13, 1915 O.B. Byrd, an informer on a still operation in Campbell County, Tennessee, was killed.

MAY 14, 1915 C.P. Phlegar, Deputy United States Marshal, was killed while on a raid acting as a posseman in Patrick County, Virginia.

JUNE 30, 1915 The responsibility for issuing the contract for internal revenue stamp paper passed from the Commissioner to the Director of the Bureau of Engraving and Printing.

SEPTEMBER 14, 1915 Posseman A. A. Holder was injured during a raid near Howard's Saw Mills, James County, Tennessee.

OCTOBER 3, 1915 The persons appointed to carry out the provisions of the income tax law under the act passed two years earlier were covered into the classified civil service.

NOVEMBER 5, 1915 Special employee J. A. Galloway and Posseman A. L. Owen were seriously injured while returning from a raid in Jackson County, North Carolina.

DECEMBER 17, 1915 Congress passed a resolution to extend the 1914 War Revenue Tax Act which had been scheduled to expire December 31, 1915.

1915 By the end of fiscal year 1915, the personnel of the Bureau of Internal Revenue had increased to 530 in Washington and 4,200 in the field.



1915 Some congressmen experienced difficulty in filling out their income tax returns, charging that the instructions were too confusing. They turned to the House Sergeant-at-Arms who thus became one of America's pioneer tax preparers. One congressmen, trying to explain why the tax law was getting more complicated, said, "I write a law. You drill a hole in it. I plug the hole. You drill a hole in my plug." The remark is widely reported, and a new tax word—loophole—entered the language.

1915 The Bureau began to issue sheet stamps rather than coupon stamps with stubs to oleomargarine manufacturers.

JULY 5, 1916 Representative Claude Kitchin of North Carolina, Chairman of the Ways and Means Committee, introduced a bill to raise \$200 million in additional revenue for defense appropriations.

JULY 10, 1916 The House passed the tax bill by a vote of 238-142.

SEPTEMBER 6, 1916 The Senate passed the revenue bill after two months of debate with a vote of 42-16.

SEPTEMBER 8, 1916 The President signed the Emergency Revenue Act of 1916, repealing the Emergency Revenue Act of October 22, 1914. The income tax doubled from 1 to 2 percent on incomes above \$4,000 for married persons and \$3,000 for singles. The surtax on incomes above \$20,000 was increased on a graduated scale to a maximum rate of 15 percent. This act granted exemp-

tions from the tax to the incomes of the President, state and local government employees, and federal judges. The tax on net corporate income doubled from 1 to 2 percent.

For the first time, taxpayers could report income on other than the cash method of accounting. Estates and trusts were taxed for the first time while the class of organizations exempt from tax was substantially increased. This act, which taxed income "from any lawful business," was amended by eliminating the word lawful—thereby clearing the way for taxing such activities as bootlegging, gambling and other illegal enterprises.

Collection at the source (withholding) was repealed with "information at the source" substituted for this provision. This act also defined "dividend" for the first time and required taxpayers receiving stock dividends to include the value in their taxable income. In *Eisner v. Macomber*, the Supreme Court held that this aspect of the 1916 act was unconstitutional, arguing that stock dividends did not constitute income within the meaning of the 16th Amendment. This case established the requirement that income must be "realized" to be taxable.

This act created the U.S. Tariff Commission as an independent agency to advise the President and Congress on trade matters.

SEPTEMBER 9, 1916 The estate tax law became effective with a due date of one year after a decedent's death.

1916 The first "Statistics of Income" report was prepared this year, as required by the Revenue Act of 1916. The report was released





in 1918 and contained information for 1913-1915.

1916 Two cases challenging the income tax came before the Supreme Court—*Brushaber v. Union Pacific Railroad Company* and *Stanton v. Baltic Mining Company*. Stockholders in these companies brought these suits to prevent their corporations from complying with the 1913 income tax law.

1916 Fewer than 500,000 individual tax returns were filed this year.

1916 Michigan, Montana, Nebraska, South Dakota, and Utah prohibited the sale of alcoholic drinks. By this time, 24 states had enacted prohibitory laws.

1917 Approximately 3.5 million individual tax returns were filed.

MARCH 2, 1917 The act providing for a civil government for Puerto Rico stated that all taxes collected under the internal revenue laws of the United States on articles produced in Puerto Rico and transported to the United States or consumed on the island would be returned into the treasury of Puerto Rico.

MARCH 3, 1917 Congress passed a revenue measure, signed by President Wilson on this date, which never went into effect because events quickly required its replacement. Nonetheless this act was important as a pathbreaker in American finance during World War I for introducing the excess profits tax. The Senate approved the much changed revenue bill by a vote of 69-4.

SEPTEMBER 25, 1917 William H. Osborn resigned as Commissioner.

SEPTEMBER 26, 1917 Daniel C. Roper of South Carolina became Commissioner.

OCTOBER 3, 1917 The War Revenue Act of 1917 became law. This was a sweeping measure dealing with income, excess profits, beverages, tobacco and tobacco manufacturers, public utilities and insurance, excises, admissions and dues, stamp taxes, and estate taxes. The bill also completely reorganized the administrative forces of the Internal Revenue Bureau.

This act created a tax gathering task of greater magnitude than had ever before been undertaken by any nation. Complexities in the language gave rise to serious questions as to whether the most important provisions of the law were administrable. As a result of the provisions of this act, the administrative force in Washington was increased from 585 personnel to 2,243.

The bill imposed a 2 percent tax on incomes greater than \$1,000 for singles and 2 percent on incomes greater than \$2,000 for married couples, with graduated surtaxes up to 63 percent. A tax of 4 percent was added to the existing tax on corporations and excess profits rates were graduated from 20-60 percent. The graduated rates for estate taxes were raised with the exemption of estates of decedents dying while serving in the military or naval forces.

OCTOBER 10, 1917 Congress passed an act prohibiting the manufacture of distilled spirits for bever-





age purposes beginning November 10, 1917. By this time, 29 states had prohibition laws.

NOVEMBER 1, 1917 Taxes on admissions to entertainments, club dues, facilities furnished by public utilities such as transportation on trains or vessels, of oil by pipeline, and on telephone messages and telegrams, and on insurance became effective.

DECEMBER 1, 1917 Stamp taxes on bonds of indebtedness, issues of capital stock, sales or transfers of capital stock, sales of produce on exchange, drafts or checks, promissory notes, parcel post packages, passage tickets, and a tax on playing cards became effective.

DECEMBER 8, 1917 The amount of food or feed material used in the production of fermented liquor was limited to 70 percent of the normal consumption for this purpose by presidential proclamation.

1917 In response to increased responsibilities required by the War Revenue Act of 1917, the Bureau placed the field forces operating under the immediate supervision of the 64 internal revenue collectors and 31 internal revenue agents under the control and direction, respectively, of a Supervisor of Collectors and the Chief Revenue Agent, who were made equal in rank to the existing three Deputy Commissioners.

1917 The Internal Revenue Bureau launched a special public education program to help citizens

understand the new tax burden. A nationwide campaign of education and publicity was organized. A special effort was made to popularize the war taxes by emphasizing the needs of the country and appealing to national pride and patriotism.

1917 The war created popular acceptance of the income tax by making the paying of it a patriotic duty. Government speakers known as "Four-Minute Men" fanned out across the nation, preaching about the importance of "defeating the Hun" by paying taxes promptly and fully.

1917 For this tax year, requirements for withholding tax on incomes were amended to provide for withholding only from incomes from sources within the United States paid to nonresident aliens and on incomes of citizens, residents, and nonresident aliens from interest on tax-free covenant bonds.

1917 In an effort to encourage philanthropy, Congress authorized the deduction of charitable contributions from taxable income.

1917 The Internal Revenue training program began this year, marking it as one of the oldest formal training programs in the federal government.

1917 An official law library was authorized for the Bureau of Internal Revenue Bureau.

1917 The Council of National Defense requested the Secretary of the Treasury to have the Bureau's







laboratory undertake the investigation of the chemical synthesis of glycerine.

**1917-1920** The federal government, whose annual expenditures had never reached \$1 billion before 1917, spent approximately \$35 billion on war-related expenses during these years, slightly less than \$10 billion of which went for loans to the Allies. President Wilson expressed the hope that the cost could be "sustained by the present generation" through a program of "well conceived taxation." Eventually, tax revenues paid for approximately one-third of the war's cost, the remainder by government borrowing.

**JANUARY 30, 1918** The first delegation to collectors of authority to audit individual income tax returns was provided in Mimeograph 1755, allowing for the audit of all Forms 1040-A in the field offices of collectors.

**MARCH 1918** Evidence of the increasing prevalence of narcotic addiction in the United States together with difficulties encountered by the Bureau of Internal Revenue in administering the Narcotic Drugs Import and Export Act led the Secretary of the Treasury to appoint a committee to make a thorough study of the narcotic drug problem. The report was published as "Traffic in Narcotic Drugs: Report of the Special Committee of Investigation, appointed March 25, 1918, by the Secretary of the Treasury."

**APRIL 4, 1918** Congress authorized the acceptance of United States Liberty Bonds bearing interest at a higher

rate than 4 percent annually in payment of estate or inheritance taxes, if the bonds had been owned continuously by the decedent for at least six months prior to the date of death.

**MAY 27, 1918** President Wilson appeared before a joint session of Congress in his famous "politics is adjourned," speech to urge higher income taxes, excess profits taxes, and excises.

**JUNE 1, 1918** The Statistics of Income report for tax year 1916 was published.

**JUNE 5, 1918** The Secretary of the Treasury wrote to Congress outlining the views of the Department as to the principal sources from which additional revenues could be sought and the manner in which the tax should be applied.

**JUNE 1918** The Supreme Court declared the 1916 child labor law unconstitutional by a vote of 5-4.

**SEPTEMBER 16, 1918** The use of food or feed material in the production of fermented liquors was prohibited after December 1, 1918 by presidential proclamation.

**NOVEMBER 21, 1918** The war prohibition amendment to the agricultural act of this date prohibited the sale of intoxicating liquors manufactured after May 1, 1919 for beverage purposes and designated the Commissioner of Internal Revenue as the officer who should regulate the manufacture and use of alcohol for non-beverage purposes. The constitutionality of this wartime prohibition act



was upheld in *U.S. v. Ranier Brewing Company* in 1920.

1918 Individual returns with income not exceeding \$5,000 filed for this year were audited by collectors in the field for the first time. As a result, 80 percent, or 3.5 million income and profits tax returns, were examined in the 64 collectors' offices.

1918 The Bureau of Internal Revenue instituted a policy of specializing auditors within industrial classifications to increase the benefits of centralized auditing out of the Washington office.

1918 The Secretary of the Treasury selected a group of prominent business and professional men to assist the Commissioner in drafting excess profits tax regulations. These men served as "Excess Profits Tax Advisers." This group was superseded by the "Excess Profits Tax Reviewers," which reviewed specific tax cases.





*Throughout the years of Prohibition there were repeated attempts to repeal the 18th amendment. Some of these efforts used the loss of tax revenues from alcohol sales as an argument in favor of repeal.*

*1919-1925*

PROHIBITION, APPEALS, AND DECENTRALIZATION:  
THE BUREAU FACES AN INCREASINGLY COMPLEX  
SYSTEM OF TAXATION



The national experiment with prohibition involved the Bureau of Internal Revenue as the designated enforcer of the Volstead Act. Faced with this new and demanding responsibility, the Bureau hired and trained hundreds of Prohibition agents to enforce the law. The Bureau's activities in other areas of law enforcement expanded during these years with the addition of an Intelligence Staff to track tax fraud and other abuses.



JANUARY-JUNE 1919 The Bureau of Internal Revenue hired over 1,000 auditors during a massive recruitment effort.

FEBRUARY 3, 1919 The House passed the Revenue Act of 1918.

FEBRUARY 13, 1919 The Senate passed the Revenue Act of 1918.

FEBRUARY 24, 1919 The Revenue Act of 1918 became law. This act codified all existing tax laws and included income tax provisions that imposed a normal and surtax rate structure that went up to 77 percent. The act also included new excess profits and estate taxes and a tax on anyone who employed child labor—an attempt to ban child labor through taxation. A Child Labor Tax Division was set up in the Internal Revenue Bureau to administer this portion of the law.

Also, as a forerunner of today's exempt organization law, this act listed 14 categories of organizations exempt from income taxation. The filing deadline was also extended for individuals from March 1 to March 15. The act provided amortization allowances to permit manufacturers who invested in special war equipment to write off the cost. The Commissioner was authorized to require inventories when he believed they were necessary to properly reflect income.

For the first time, corporations were granted an exemption of \$2,000, but corporate tax rates were raised to 12 percent of net taxable income. A profits tax escalating from 30-80 percent of excess or "war" profits was instituted for corporations.

The Appeals function originated with this act with the formation of an Advisory Tax Board, consisting of six non-government members appointed by the Commissioner and approved by the Secretary of the Treasury. This new group replaced the Excess Profits Tax Reviewers.

The Commissioner had the authority to submit any case involving income war profits and excess profits tax law issues to the Advisory Tax Board 30 days after the Income Tax Unit had completed its examination. The Board's recommendations were subject to the personal approval of the Commissioner.

Payment of taxes by quarterly installment was authorized and the number of deputy commissioners was increased to five. The number of internal revenue agents was hereafter limited only by the amount of the appropriation available to pay them.

FEBRUARY 1919 A Civil Division was established under the office of the Solicitor of Internal Revenue with responsibility for trial preparation of all civil internal revenue cases.

FEBRUARY 1919 Upon the enactment of the Revenue Act of 1918, the Bureau created a position for a deputy commissioner in charge of a new Sales Tax Division, charged with interpretation and administration of the taxes on transportation, telegraph, telephone, radio, cable, and other facilities, insurance policies, soft drinks and other beverages sold in closed containers, ice cream, admissions and dues, manu-





facturers, works of art and jewelry, motion-picture films, toilet and medicinal articles, motor boats and stamp taxes.

**FEBRUARY 1919** Treasury Decision 2788 was issued, providing the procedures under which high proof spirits could be distributed for non-beverage purposes, including medicinal and sacramental purposes.

**MARCH 1, 1919** Prior to this date, a very simple accounting system of single-entry bookkeeping was employed in collectors' offices. On this date, a new system of double-entry accounting was instituted in collectors' offices.

**MARCH 13, 1919** The Advisory Tax Board was organized and immediately began to analyze and interpret those provisions of the Revenue Act of 1918 whose application gave rise to complex questions.

**APRIL 1, 1919** Due to delays in the printing and distribution of tax forms under the Revenue Act of 1918, the filing deadline for returns was extended from March 1 to April 1 this year.

**APRIL 25, 1919** Title XII of the Revenue Act of 1918 placed a tax upon the employment of child labor. The basis for the tax was employment in a mine or quarry of a child under 16 years old, or in a mill, cannery, workshop, factory, or manufacturing of establishment of a child under 14 years old, or of a child between the ages of 14 and 16 for more than eight hours a day

or more than six days a week, or before 6:00 a.m. or after 7:00 p.m. The amount of tax was 10 percent of the annual net profits of the taxpayer.

**MAY 1, 1919** The Beverage Spirits Division and the Non-Beverage and Industrial Alcohol Division were established as separate branches of the technical unit of the Bureau.

**JUNE 7, 1919** A general examination of about 3,000 field deputies was held simultaneously in all collection districts to discover the special qualifications and deficiencies of collectors; to eliminate incompetent employees; and to provide a basis for more intelligent review of the recommendations of collectors in connection with personnel matters.

**JUNE 27, 1919** An Executive Order created 10 new collection districts in Maine, Vermont, Rhode Island, Delaware, Mississippi, North Dakota, Wyoming, Idaho, Utah, and New Mexico.

With this action, every state except Nevada had its own collection district and collector of internal revenue. To retain the total number of districts within the 64 allowed by law, the following collection districts were abolished: Second, Sixth, Seventh, and Eighth Districts of Kentucky; the Seventh District of Indiana; the Fifth and Thirteenth Districts of Illinois; the First District of Wisconsin; the Ninth District of Pennsylvania; and the Fifth District of North Carolina.







**JULY 1, 1919** The Bureau of Internal Revenue established the Intelligence Unit to root out and prevent tax fraud. Many serious complaints had reached Commissioner Roper concerning alleged tax frauds and dishonest employees. Since he had served as Postmaster General and was familiar with Post Office inspector work, Roper decided to create the Intelligence Unit within the Bureau. Six Post Office inspectors were transferred to Internal Revenue on this date.

**JULY 1919** Instructions were issued to collectors of internal revenue to confer with United States attorneys and local health authorities in their districts to devise plans whereby bona fide narcotics cases might be properly treated.

**OCTOBER 1, 1919** The Advisory Tax Board was dissolved because its members preferred to return to their former occupations. This was replaced by the Committee on Appeals and Review—a quasi-judicial appellate body staffed with five members from the Bureau of Internal Revenue.

**OCTOBER 27, 1919** Shortly after the ratification of the Eighteenth Amendment, Congress passed the National Prohibition Enforcement Act, also known as the Volstead Act, over President Wilson's veto. The act prohibited the manufacture, sale, and use of intoxicating beverages and gave the Commissioner of Internal Revenue primary responsibility for investigating and enforcing prohibition. The Commissioner was given authority to issue permits for the manufacture, sale, and transportation of alcoholic

liquors for medicinal, industrial, and religious uses.

The implementation of Prohibition prompted the need to develop a whole new concept of revenue collection and enforcement. From 1868 through 1913, nearly 90 percent of internal revenue came from taxes on distilled spirits, tobacco, and fermented liquor. Almost immediately, bootleggers began operating around the country.

**OCTOBER 28, 1919** As the National Prohibition Act became effective, all distilleries and industrial distilleries producing alcohol were required to requalify as industrial alcohol plants.

**NOVEMBER 8, 1919** A committee appointed by the Commissioner immediately after the passage of the Volstead Act submitted a recommendation to create a new unit, one branch of which was to enforce the penal and regulatory provisions of the law and the other to supervise the permissive features of the law.

**NOVEMBER 12, 1919** The Commissioner and the Secretary of the Treasury approved the establishment of the Prohibition Unit within the Bureau of Internal Revenue.

**DECEMBER 1, 1919** The Tobacco and the Miscellaneous Divisions were placed under the jurisdiction of the Sales Tax Unit.

**DECEMBER 22, 1919** The Prohibition Unit was formed within the Bureau of Internal Revenue with an appropriation of \$2 million under the Volstead Act.





1917-1919 The personnel of the Washington office of the Bureau of Internal Revenue increased from 585 to 4,088 in this period.

1919 The Bureau of Internal Revenue proposed a campaign to train and recruit women for work "hitherto done exclusively by men" because the personnel ranks had been depleted by wartime demands.

1919 The chemical laboratory of the Bureau was expanded and established as the Division of Technology.

1919 The Bureau experimented with giving collectors in field offices responsibility for reviewing and verifying all 1918 returns with incomes up to \$5,000.

1919 The Bureau initiated a service of providing information relating to income and profits taxes in the form of printed bulletins and monthly digests.

1919 The Bureau of Internal Revenue, in Commissioner's Mimeo-graphed Published Opinion 2228, formally announced that it was limiting rulings to completed transactions and would require a full statement of facts and the names of all interested parties. This was the first published statement by the IRS concerning its ruling policy and was the result of the number and complexity of questions arising under the Revenue Act of 1918.

1919 The Bureau of Internal Revenue appointed a committee to study the simplification of tax forms.

1919 The close work between the Personnel Division and the Training Division in the recruitment of auditors and technicians for the Income Tax Division led to the combination of these two functions into a single division—the Staff Division.

The Audit and Administration Division was divided into two independent divisions—the Administration Division, responsible for mails and files, space, equipment, and supplies, and the Internal Audit Division, responsible for auditing all but specialized returns.

The Income Tax Unit established the Field Audit Division responsible for the field forces engaged in investigation of income and profits tax cases. Prior to this, the field forces were under the direction of the Chief of Revenue Agents, who reported directly to the Commissioner.

1919 A Charitable Bequest Section was organized as part of the Estate Tax Division to consider deductions allowed under the Revenue Act of 1918.

JANUARY 1, 1920 An order went into effect requiring that appointments to clerical positions in the field would be made from a register of eligibles obtained as a result of Civil Service Commission examinations or by transfer from other classified positions.





JANUARY 7, 1920 The Tobacco Division and the Miscellaneous Division were consolidated into the Tobacco and Miscellaneous Division.

JANUARY 16, 1920 Prohibition went into effect.

JANUARY 26, 1920 A stenographic reserve was created in the Prohibition Unit to which all stenographers and typists not engaged in special duties or those with free time were assigned.

FEBRUARY 1920 The position of Supervisor of the Narcotic Field Force was created.

FEBRUARY 1920 Importers and manufacturers as well as wholesale dealers registered under the Harrison Narcotic Act were required to render monthly returns of transactions in narcotics.

MARCH 1, 1920 The Solicitor's Office underwent a complete reorganization, resulting in five divisions: Interpretative Division I, Interpretative Division II, Penal Division, Civil Division, and Administrative Division.

MARCH 6, 1920 Congress passed an act which required warehouse agents to be stationed at bonded warehouses throughout the United States to guard stored spirits.

MARCH 11, 1920 The Sixth Virginia District was consolidated with the Second Virginia District.

MARCH 31, 1920 Daniel C. Roper resigned as Commissioner.

APRIL 1, 1920 William M. Williams of Alabama became Commissioner.

APRIL 1, 1920 An order provided that all supervisory office positions would be filled by promotion of classified office or field employees, by selection from civil-service certificates, or by transfer of classified employees from other branches of the government service.

APRIL 1920 The Bureau of Internal Revenue hosted a conference of all agents-in-charge in Washington, D.C.

MAY 1, 1920 A central mail control facility was established for the Prohibition Unit through which all incoming and outgoing mail passed.

MAY 1, 1920 On this date, all qualified, unassigned storekeeper-gaugers who had been performing guard duty at bonded warehouses were transferred to the position of warehouse agents.

MAY 1920 The Solicitor of Internal Revenue organized a Conference Committee, with the Assistant Solicitor serving as Chairman, and the four Assistant Solicitors in charge of the divisions.

JULY 1, 1920 The Accounts Unit was reorganized and a budget system of accounting was installed. A Revenue Collection Division was created to deal with all internal revenue receipts, all certificates of





deposit issued to collectors of internal revenue by Federal Reserve banks and branches thereof, all quarterly accounts, and all statistical work. A Disbursement Division was created to handle all matters relating to accounts of disbursing agents. An officer designated as the Supervisor of Accounts had control over these two divisions and was responsible for the preparation of estimates of appropriations submitted to Congress.

JULY 1, 1920 The Office of Counsel and the Legal Division of the Prohibition Unit were consolidated.

JULY 1, 1920 The office of the Internal Revenue Agent-in-Charge at Little Rock, Arkansas was moved to Oklahoma City, Oklahoma to be nearer the large oil fields furnishing the major portion of its work.

JULY 1, 1920 The Second Collection District was established in Texas.

AUGUST 1, 1920 The Review Division of the Income Tax unit was created to meet the demands of the increased workload since the passage of the income tax law in 1913.

AUGUST 1, 1920 Beginning on this date, all capital-stock and child-labor tax returns requiring field investigation were handled by a force of deputy collectors specially trained for the work.

OCTOBER 15, 1920 The Industrial Alcohol and Chemical Division was organized, taking over a portion of

the work formerly administered by the Division of Technology.

OCTOBER 19, 1920 The Permit Division of the Prohibition Unit was created by dividing the Division of Technology into the Permit Division and the Industrial Alcohol and Chemical Division.

DECEMBER 13-16, 1920 A second conference of agents-in-charge of all divisions except Honolulu was held in Washington, D.C.

DECEMBER 1920 The Sales Tax Bulletin Service was established in an effort to make immediately available to officers and employees of the IRS and to others concerned, important rulings bearing upon those provisions of the revenue acts grouped as sales taxes.

1920 By the end of the fiscal year, the Bureau established 11 new collection districts. These included districts in the states of Maine, Vermont, Rhode Island, Delaware, Mississippi, North Dakota, Wyoming, Idaho, Utah, New Mexico, and Nevada. This also completed the Bureau's program to provide at least one collection district in each state.

1920 The Internal Revenue legal office was organized into five specialized divisions.

1920 The American Mining Congress urged the establishment of a board or committee to hear appeals of tax cases in dispute.





1920s The business boom during the 1920s enabled taxes to be cut five times while receipts remained high.

JANUARY 1, 1921 Tax rate decreases provided by the Revenue Act of 1921 became effective.

FEBRUARY 1, 1921 The office of the Internal Revenue Agent-in-Charge at Columbia, South Carolina was moved to Greenville, South Carolina due to the inability to obtain suitable space in Columbia.

MARCH 4, 1921 Warren Harding stressed the need to put "our public household in order," in his inaugural address. A first step in that direction, Harding insisted, lay in lighter tax burdens. The new Secretary of the Treasury, Andrew Mellon, became the architect of that tax reduction program.

APRIL 11, 1921 William M. Williams resigned as Commissioner.

MAY 27, 1921 David H. Blair of North Carolina became Commissioner.

MAY 1921 The Fordney Emergency Tariff Act reinstated protective tariffs on wool and a large variety of agricultural products.

JULY 1, 1921 Fifteen counties in the second collection district of Texas were transferred to the first district of Texas and two counties from the first to the second district. This was an effort to make the two Texas districts more nearly equal in size and to have the boundaries of the collection dis-

tricts conform more nearly to judicial district boundary lines.

AUGUST 4, 1921 Secretary of the Treasury Andrew Mellon appeared before the Ways and Means Committee to recommend repeal of the excess profits tax, reduction of the maximum income surtax from 65 percent to 32 percent, retention of normal income tax rates of 4 percent and 8 percent. He ended up with a bill that reduced surtax rates to 40 percent and reduced the excess profits tax.

AUGUST 9, 1921 Prohibition Mimeograph 201 stipulated that all criminal information, indictments, injunctions, libels, and search warrants in brewery cases, with supporting affidavits, be prepared in the Prohibition Unit and filed through the Department of Justice.

NOVEMBER 23, 1921 The Revenue Act of 1921 became law, substantially reducing individual and corporate tax rates. The tax rate in the highest bracket was 73 percent. This act permitted taxpayers to appeal cases prior to assessment, but after determination of deficiency.

Before any additional assessment could be made, the taxpayer was given 30 days to file an appeal and show cause as to why the additional tax should not be paid. Jurisdiction of the district courts in hearing cases regarding refunds of taxes paid in dispute was expanded from the previous limit of cases involving not more than \$10,000 to unlimited amounts if the collector had died before action was commenced.







This act also established a Tax Simplification Board to investigate the administration of the internal revenue laws. The Board consisted of three members appointed by the President to represent the public and three members from within the Bureau of Internal Revenue.

This act prohibited unnecessary examinations or more than one inspection of a taxpayer's books for a taxable year unless the taxpayer requested the additional audit or the Commissioner, after investigation, notified the taxpayer that the additional examination was necessary. The excess profits tax enacted in 1917 was repealed.

NOVEMBER 23, 1921 Congress enacted the Willis-Campbell Act, supplementing the national prohibition act by prohibiting the dispensing of malt liquors on physicians' prescriptions and prohibiting the further importation and manufacture of distilled spirits, except alcohol, until the quantities in storage in the United States were reduced to an amount which, in the opinion of the Commissioner, was insufficient for any but lawful uses.

DECEMBER 1921 Congress made a significant additional appropriation to enable the Bureau to recruit 300 auditors for the consolidated returns subdivision, 75 engineers for the natural resources division and the amortization section, and 300 clerks. Authorization was also made to recruit 600 field auditors and 120 field clerks.

1921 Congress authorized the taxation of capital gains at a lower rate.

1921 The Statistical Division issued the Statistics of Income report for 1919 and the preliminary report for 1920.

1921 The personnel of the Committee on Appeals and Review were increased from five to ten members due to the increasing volume of work.

1921 Legal opinion in the case of *Smietanka v. Indiana Steel Company* held that a suit had to be maintained against the collector who was in office when the tax was collected, even if at the time the suit was commenced the collector had left office.

1921 Suboffices of the Field Audit Division were opened in Houston, Dallas, Wichita Falls, Texas; Bridgeport, Connecticut; and Memphis, Tennessee.

1921 During the year, the Supreme Court ruled that the munitions tax was valid; that gains realized from the sale of capital assets were taxable income; that state inheritance taxes could not be deducted from the gross estate before computing the federal estate tax; and that the estate tax act of 1916 was constitutional.

1921 During the year a prohibition patrol service was organized consisting of six boats of the submarine chaser type, assigned at various points along the Atlantic coast for the suppression of smuggling. Five motor patrol boats were placed on





the Great Lakes to apprehend liquor smuggled from Canada.

MAY 15, 1922 The Supreme Court declared the child labor tax law unconstitutional and the Child-Labor Tax Division went out of existence.

MAY 23, 1922 In accordance with a recommendation from the Tax Simplification Board, the Accounts Unit and the Office of the Supervisor of Collectors' Offices were abolished and these duties were transferred to a new unit known as the Accounts and Collections Unit. This also resulted in field employees formerly designated as "assistant supervisors of collectors' offices" as "supervisors of accounts and collections."

MAY 26, 1922 Congress passed the Narcotic Drugs Import and Export Act of 1922 which prohibited the importation of smoking opium and opium used in the manufacture of heroin. These prohibitions were also extended to other narcotics such as coca leaves and morphine. This act authorized the Commissioner of Narcotics to determine the legitimate levels of imports needed for medical and scientific purposes and prohibited all other imports. Tougher Treasury Department regulations, however, provided greater controls on illegal drug trafficking.

1922 The Bureau of Internal Revenue introduced form letters to increase the speed and accuracy of correspondence with taxpayers.

1922 The General Audit Division was reorganized into two divisions, the Personal Audit Division and the Corporation Audit Division. The Natural Resources Division was created from the former subdivision of that name of the Special Audit Division.

1922 Membership on the Committee for Tax Appeals was increased from five to ten.

1922 In the Administration Division, the Returns Control and Files Sections were combined and their functions transferred to the newly created Records Subdivision.

1922 Senator Atlee Pomerene of Ohio introduced a bill to create a "United States Court of Appeals on Internal Revenue Questions."

JANUARY 19, 1923 Instructions were issued to collectors outlining a procedure whereby they were required to file monthly reports showing the amounts outstanding of all classes of tax by years.

FEBRUARY 1923 The Prohibition Unit issued an annotated compilation of "Laws Relating to Prohibition Enforcement."

MARCH 10, 1923 The head of the Narcotics Division was designated Secretary of the Federal Narcotics Control Board and began to administer the permissive provisions of the Narcotic Drugs Import and Export Act, known as the Jones-Miller Act and directed the disposition of drugs seized thereunder.





MARCH 1923 Congressman William Green of Iowa, Chairman of the Ways and Means Committee, requested that Secretary of the Treasury Andrew Mellon appoint an ad hoc committee to study revision of the Revenue Act of 1921 and make recommendations to remove "inequalities" in tax law, to close "loopholes," and to "simplify" tax administration.

APRIL 1, 1923 An additional collection district was established in New York City, comprising that portion of Manhattan Island from Twenty-Third Street North. This district was designated as the Third Internal Revenue District of New York.

APRIL 16, 1923 A commission on the importation of wine and exportation of spirits held its first session.

APRIL 1923 The field supervisors' force of the Prohibition Unit was reorganized and the employees were assigned to duty under the supervision of the Chief, General Prohibition Agents.

MAY 29, 1923 A Special Committee on Appeals and Review was formed to consider and dispose of the large number of smaller cases with tax controversies of over \$2,500.

MAY 1923 The Bureau of Internal Revenue created a special section to consider and recommend the assertion of fraud penalties. Known as the Special Adjustment Section, this organization functioned independently from the Penal Division.

JUNE 16, 1923 The Sales Tax Division was consolidated with the Estate Tax and Capital Stock Tax Unit.

JUNE 19, 1923 The President signed an Executive order transferring administration of the national prohibition act in the Virgin Islands from the Secretary of the Treasury to the Secretary of the Navy.

AUGUST 18, 1923 The first move toward decentralization of tax processing work from Washington, D.C. to the field offices was made when revenue agents-in-charge were directed to retain reports of investigations in their offices for a period of 20 days and were authorized to consider protests of taxpayers filed with them within that period.

NOVEMBER 10, 1923 The Mellon Plan of 1923 was presented to the Ways and Means Committee, proposing a reduction of the normal income tax rates by one-fourth, reduction of the surtax to 25 percent, and creation of a Board of Tax Appeals independent of the Bureau of Internal Revenue to hear tax cases. This plan was the result of the committee created in March to investigate current tax law.

DECEMBER 16, 1923 The Tobacco and Miscellaneous Division was consolidated under the Miscellaneous Tax Unit.

DECEMBER 17, 1923 Secretary Mellon sent draft legislation to the Ways and Means Committee to implement his recommendations of





the past month, which included creation of a Board of Tax Appeals. Six months later, the Revenue Act of 1924 became law, providing some of the most sophisticated tax legislation to date.

1923 Mabel G. Reinecke was appointed to the Office of the Collector of Internal Revenue in Chicago—the first woman to achieve this status.

1923 Membership on the Committee for Tax Appeals was increased from 10 to 20. Prior to this year, hearings before the Committee could only be held in Washington, D.C. This year a field Committee was established to hold hearings for taxpayers west of the Mississippi.

1923 President Coolidge's first annual message to Congress announced support for a World Court, enforcement of Prohibition, and lower taxes. At some point during his Presidency, Coolidge made the memorable statement, "Collecting more taxes than is absolutely necessary is legalized robbery."

JANUARY 1, 1924 In a further move towards decentralization and to eliminate unnecessary handling of returns, all individual income tax returns filed on Form 1040 showing gross income under \$15,000 were retained in the offices of the collectors of internal revenue and audited using the same procedures in effect for the audit of returns filed on 1040-A. This eliminated forwarding several thousand returns to Washington, D.C.

MARCH 14, 1924 Hearings in an investigation into the Bureau of Internal Revenue by a select committee of the United States Senate began under the authority of Senate Resolution No. 168. The hearings were indefinitely adjourned on April 9, 1924.

APRIL 1, 1924 Most of the functions of the Stamp Division were transferred to the Bureau of Engraving and Printing. This included transferring all stamps in the vaults of the Division with the exception of tobacco stamps imprinted on tin-foil wrappers.

MAY 16, 1924 A Central Committee of the Prohibition Unit was appointed to consider major questions and to ensure that all work relating to permits was coordinated and kept up-to-date.

MAY 26, 1924 In the case of *Lynch v. Tilden Produce Company*, the Supreme Court rendered a decision holding that the Commissioner was without authority to specify by regulation that butter containing 16 percent or more of moisture was adulterated, based solely upon that fact. This meant that in order to sustain a case under section 4 of the act, insofar as the moisture content of butter was concerned, it had to be shown that some material or process was used with the intent or effect of causing the absorption of abnormal quantities of moisture.

JUNE 2, 1924 President Coolidge signed the Revenue Act of 1924 into law, significantly reducing income tax levels and creating a Board of





**Tax Appeals.** This act eliminated the requirement for a taxpayer to present his protest against the payment of taxes either prior to or with the tax payment. With this act, suit could be commenced after a claim for a refund was denied or after six months from the filing of the claim, whichever was sooner.

The act required that the name, address, and tax payment of every taxpayer be made available to the public. Congressional committees, state officials, and upon order of the President, the public, were given access to tax returns.

Estate tax rates were increased and the first gift tax was imposed as part of this act. The income tax law became Title 26 of the United States Code. Prior to this, tax laws had simply been published in "Statutes at Large."

This act abolished the Committee on Appeals and Review and established the Board of Tax Appeals, the predecessor of the Tax Court, to provide taxpayers with an independent review of asserted deficiencies.

Taxpayers were required to pay taxes by quarterly installments. Interest did not accrue on the installments, except to the extent that payments became delinquent, in which case the balance could be demanded by the Commissioner. Special taxes on proprietors of theaters, public exhibitions, shows for money, and circuses were repealed, effective June 30, 1924.

**JUNE 30, 1924** The Bureau of Internal Revenue revised its regulations for the administration of Title III of the National Prohibition Act,

transferring control of the distribution, warehousing, and denaturing of alcohol to prohibition administrators, and leaving internal revenue collectors with the responsibility of collecting the tax.

**JULY 2, 1924** President Coolidge selected the first 12 members of the Board of Tax Appeals, seven from the public and five from the Bureau of Internal Revenue.

**JULY 15, 1924** The Reviews Division of the Office of the Solicitor was created, taking over functions previously exercised by the Committee on Appeals and Review and the Special Committee on Appeals and Review. Its function was to hear and determine all protests against the action of the Income Tax Unit wherein a deficiency of tax had been determined.

**JULY 16, 1924** The United States Board of Tax Appeals, created by the Revenue Act of 1924, was formally organized to hear appeals from additional assessments after June 2, 1924, in cases involving income, excess-profits, estate, and gift taxes. A total membership of up to 28 was authorized for a period of two years. On this date, the first 12 members of the Board of Tax Appeals were sworn in. The Committee on Appeals and Review was abolished by Treasury Decision 3616.

**SEPTEMBER 1, 1924** Field offices of the Income Tax Unit were allocated up to eight supervisory districts and a supervising internal revenue agent, acting in an advisory capacity to the deputy commissioner in charge of







the Income Tax Unit, to supervise the work of each of the districts. Also, the office of the assistant deputy commissioner in charge of field divisions was abolished.

NOVEMBER 1924 After testing in eight field offices, the Bureau of Internal Revenue decentralized the audit of income tax returns, leaving only the duty of review to the Washington, D.C. office.

DECEMBER 1, 1924 The Income Tax Unit adopted a procedure whereby the taxpayer was requested to file protests or appeals with the local agent-in-charge in all cases.

DECEMBER 29, 1924 The gross income limit for income tax returns retained and audited in the field was raised from \$15,000 to \$25,000, effective January 1, 1925.

1924 The Bureau of Internal Revenue abandoned the policy of providing specialized auditors in industrial classifications.

The Special Audit, Natural Resources, and Administration Divisions of the Income Tax Unit were abolished. The Consolidated Returns Subdivision was made a division and the Records Division and the Service Division were created from the former Administration Division.

1924 Senate Resolution 168 of the 68th Congress appointed a committee to investigate the Bureau of Internal Revenue.

1924 The Board of Tax Appeals ruled that Certified Public Accountants and attorneys were the only representatives qualified to appear before them on behalf of taxpayers.

JANUARY 1925 A Sacramental Wine Withdrawal Section was established to guard against abuse of the privilege of using wine for sacramental and religious observances.

FEBRUARY 24, 1925 Dollar limitations on cases involving payment of refunds on taxes in dispute were removed if at the time the suit was commenced the collector was out of office.

MARCH 18, 1925 The membership of the Board of Tax Appeals was increased by four, to a total of 16.

APRIL 24, 1925 The Appeals Division was established in the Solicitor's Office to alleviate the growing workload of the Board of Tax Appeals. Its initial staff included 26 lawyers and 5 assistants.

MAY 2, 1925 The Metals and Nonmetals Valuation Sections of the Engineering Division were abolished and replaced with a single section designated as the Metals and Nonmetals Valuation Section.

MAY 6, 1925 Personal Section No. 6 of the Personal Audit Division was abolished and their work transferred to the remaining five audit sections.





MAY 11, 1925 A Supreme Court decision in the case of *Lewellyn v. Frick* held that life insurance payable to specific beneficiaries who had been named prior to the 1918 revenue act could not be taxed.

MAY 1925 The first division of the Board of Tax Appeals was sent outside the Washington, D.C. area to hear appeals from taxpayers in other parts of the country. This field session visited Milwaukee, St. Paul, Seattle, Portland, San Francisco, and Los Angeles.

JULY 1, 1925 The Staff Division was abolished and its work and responsibilities distributed to various other units. An Efficiency-Record Section and a Field-Procedure Section were created and were attached to the Office of the Assistant Deputy Commissioner.

JULY 1, 1925 The Bureau of Internal Revenue initiated a policy of assigning engineers to certain field divisions to advise and assist supervising internal revenue agents and agents-in-charge of field work. These individuals were designated as engineer revenue agents and worked directly under the supervising internal revenue agent.

OCTOBER 19, 1925 Secretary of the Treasury Mellon appeared before the Ways and Means Committee to recommend further tax reduction, including lowering the surtax to 20 percent and repealing federal estate and gift taxes.

OCTOBER 1925 A second division of the Board of Tax Appeals visited St. Louis and Kansas City.

NOVEMBER 1, 1925 The headquarters of supervisory field District No. 3 was moved from Baltimore to Philadelphia.

NOVEMBER 23, 1925 Coal valuation and the metals and non-metals sections of the Engineering Division were combined and designated as the Mining Section.

NOVEMBER 30, 1925 To ensure that the benefits of the Training Section were accessible to all employees of the Bureau, the Training Subsection of the field-Procedure Section was abolished and its functions transferred to the Training Section of the Appointment Division.

DECEMBER 1, 1925 The Pittsburgh Division was withdrawn from supervisory Field District No. 3 and established as the headquarters of supervisory Field District No. 2. Also on this day, the State of Florida was withdrawn from the boundaries of the Atlanta Division and a new division with headquarters at Jacksonville was created. This action was considered necessary due to the rapid increase of land values in Florida.

1925 Senator James Couzens of Michigan charged that millions of tax dollars were being lost through the favorable treatment of large corporations by the Bureau of Internal Revenue.





1925 By the end of this period calls for construction of a new facility to house the Bureau of Internal Revenue became more pronounced. While the Commissioner and the Intelligence Unit were located in the main Treasury Department building, the remainder of the Bureau's Washington, D.C.-based employees were housed in 10 separate buildings. The Income Tax Unit alone worked out of six buildings. Many of the units were located in temporary structures erected during World War I and intended for emergency use only. This year, the Commissioner issued an urgent plea for funding and support for a new consolidated building.





*The new building for the Bureau of Internal Revenue was built between 1929 and 1933 as one of the first structures in the new “Federal Triangle” area of Washington, D.C.*

*1926-1934*

DEPRESSION AND ORGANIZED CRIME:  
TAX RATES AND GANGSTERS FALL



The downfall of Al Capone for income tax evasion is probably the most famous coup in the history of internal revenue criminal tax enforcement. During the years of the Depression, the Bureau of Internal Revenue continued its tax collection and enforcement responsibilities even though the economic conditions throughout the country resulted in decreases in most tax rates.



JANUARY 2, 1926 A Prior Year Audit Section was created within the Personal Audit Division, with responsibility to audit all open returns for tax years 1917-1919.

JANUARY 15, 1926 The Affiliations Section and the Production Committee of the Consolidated Returns Audit Division were abolished and their functions combined with the Administrative Section of the same division.

JANUARY 15, 1926 The headquarters of supervisory Field District No. 7 was relocated from Atlanta to Louisville.

FEBRUARY 26, 1926 The Revenue Act of 1926 lowered surtaxes on higher incomes, lowered tax rates on large estates, and repealed the gift tax. The gift tax was replaced with a provision that treated all gifts made within two years of death as being part of a decedent's estate. Income tax rates were reduced to 1½ percent, 3 percent, and 5 percent, and exemptions were increased. These reductions were possible due to the Revenue Act of 1924 "producing more revenue than was necessary to carry on the functions of the Government."

This act also slightly increased the rates on corporations, introduced installment reporting, and repealed the "publicity provisions" of the 1924 act. A list of names and addresses of those filing returns was still made available for public inspection.

Congress also directed the creation in the Treasury Department of the Office of General Counsel for Internal Revenue and abolished the Office of

Solicitor of Internal Revenue in the Department of Justice.

Congress authorized a depletion allowance of 27.5 percent for oil and gas resources. This "oil depletion allowance" came under almost constant attack for the next half-century as a tax loophole for the rich. This act enlarged the jurisdiction of the Board of Tax Appeals and provided a method of appeal from its decisions by either the Commissioner or the taxpayer to a circuit court of appeals or to the Court of Appeals of the District of Columbia.

A special congressional committee was appointed to investigate the administration of the Bureau of Internal Revenue, in a continuation of work begun by Senator James Couzens of Michigan. The Joint Committee on Internal Revenue Taxation was to consist of five members from the House Ways and Means Committee and five from the Senate Finance Committee, including six majority and four minority members.

MARCH 1, 1926 As a result of the repeal of various taxes by the Revenue Act of 1926, the Miscellaneous Division was organized, taking over the work of the former Sales Tax Division and the administration of the miscellaneous taxes from the Tobacco and Miscellaneous Division.

MARCH 27, 1926 A prior year Audit Section was established in the Corporation Audit Division to audit all open excess profits returns.

APRIL 30, 1926 The Records Division was abolished and the Statistical Division redesignated as the Statisti-







cal Section. A new Clearing Division and a new Records Division were established. The Clearing Division was charged with reviewing the classification placed on tax returns and the final closing of those returns designated as "accepted."

MAY 24, 1926 The Public Buildings Act of 1926 authorized construction funding for the Federal Triangle.

MAY 26, 1926 President Coolidge announced the names of the 16 men he would appoint to the Board of Tax Appeals.

JUNE 2, 1926 The terms of office of the original members of the Board of Tax Appeals expired. Members appointed after this date would be appointed for ten year terms.

JULY 1, 1926 The Capital Stock Tax was repealed.

JULY 26, 1926 A decision was made to proceed as soon as possible with construction of both the Internal Revenue and Department of Commerce buildings in an attempt to alleviate dangerous conditions which threatened both employees and records in the temporary buildings.

AUGUST 1, 1926 The Service Division was abolished and its work and personnel transferred to a new Service Section.

AUGUST 26, 1926 Elliot Ness joined the Prohibition Service.

NOVEMBER 12, 1926 Instructions were issued directing that all revenue agents' reports, copies of audit

correspondence, and memorandum be filed with the returns.

DECEMBER 18, 1926 Mimeograph 3498 withdrew all 1040 returns from the collectors and left them with the 1040-A returns only for audit, effective January 1, 1927.

1926 The Bureau of Internal Revenue prepared Bulletin A which contained all the income-tax forms under the Revenue Act of 1926 and Bulletin B, "Withholding of Income Tax at the Source and Information at the Source."

JANUARY 1, 1927 The field service of the Income Tax Unit was reorganized with the discontinuance of the eight supervisory districts. Each division was constituted as an independent organization, with each revenue agent-in-charge responsible to the head of the unit in Washington, D.C.

FEBRUARY 1, 1927 The Fourth Collection District of Michigan in Grand Rapids was consolidated with the first Collection District in Detroit.

APRIL 1, 1927 The Prohibition Unit was transferred to the Treasury Department and became the Prohibition Bureau by Public Act 951.

MAY 10, 1927 The Supreme Court reversed a lower court's decision and ruled that profits from crime were taxable. "We see no reason to doubt the interpretation of the [Revenue] Act, or any reason why the fact that a business is unlawful should exempt it from paying the taxes that if lawful it would have to pay."





MAY 31, 1927 The Engineering Division was abolished and a new Engineering Section was established and assigned to the Consolidated Returns Audit Division.

JUNE 10, 1927 The audit of all transportation and public utilities cases was centralized in the Consolidated Returns Audit Division.

JULY 1, 1927 The Special Assessment Section was transferred from the Income Tax Unit to the Corporation Audit Division.

JULY 1, 1927 The Office of the Internal Revenue Agent-in-Charge in Trenton, New Jersey was moved to Newark and the Internal Revenue Agent-in-Charge in San Antonio was moved to Dallas.

JULY 1, 1927 The administrative organization of many collector's offices was changed to eliminate the chief office deputy and chief field deputy positions and instead have a single position, known as the Assistant to the Collector, to direct the activities of both the office and field forces.

JULY 28, 1927 A Special Advisory Committee was formed as part of the Commissioner's Office to help alleviate the workload of over 18,000 cases pending before the Board of Tax Appeals. The Committee was composed of a Chairman and 12 members in Washington, D.C., assisted by 20 revenue agent conferees throughout the country. These conferees held conferences with taxpayers and examined the reasons underlying the accumulation of

pending income tax cases in the Bureau. The functions and personnel of the 60-day conference unit of the corporation and personal audit divisions were transferred to this Committee. This Committee was a forerunner of the Appeals function.

JULY 1927 An Audit Section was established in the Income Tax Division of the office of each field collector of internal revenue. The responsibility for the initial audit of tax returns was shifted to the field with the Washington, D.C. office reserving authority to verify field actions.

AUGUST 1, 1927 The Corporation Audit Division, Personal Audit Division, and the Special Assessment Section were abolished and the Field Audit Review Division was created.

OCTOBER 1927 The Bureau adopted overassessment procedures for the collection of estate taxes similar to those used in income tax cases.

NOVEMBER 21, 1927 Ground was broken for the Internal Revenue building in Washington, D.C.

1927 Organizational changes during the year included merging the Personnel Office and the Efficiency Records Section into a Personnel Section, abolishment of the administrative section of the Consolidated Returns Audit Division, transfer of the Photostat Laboratory from the Income Tax Unit to the administrative function, and abolishment of the Distribution Section of the Records Division.





1927 The Bureau initiated the use of form letters to request that the taxpayer appear in the office of the special agent-in-charge with his records for an office audit.

1927 To shorten procedures and economize, the Bureau issued instructions that certified copies of tax returns and related papers requested by taxpayers would be furnished by the Records Division of the Income Tax Unit in Washington. Previously, this responsibility had been split between the Income Tax Unit and the General Counsel, resulting in duplication of effort.

JANUARY 31, 1928 The Review Section of Consolidated Returns Audit Division was abolished with the personnel and functions of this section transferred to other sections of the Division.

FEBRUARY 13, 1928 The Distribution Section of the Records Division was abolished.

MARCH 12, 1928 The Capital Stock Tax Division of the Miscellaneous Tax Unit was abolished and a Capital Stock Tax Section was created in the Miscellaneous Division.

APRIL 10, 1928 The Field Service was transferred to the immediate supervision of the deputy commissioner in charge of the Income Tax Unit.

APRIL 10, 1928 The Photostat Subsection, Service Section, was transferred from the Income Tax Unit and placed under the supervision and control of the Administrative

Division, of the Commissioner's Office.

APRIL 12, 1928 A new section, designated as the Personnel Section, was created in the Deputy Commissioner's Office, comprised of the former Office of the Personnel Officer and the Efficiency Records Section which were abolished.

MAY 1, 1928 A new field division known as the Upper New York Division was established, including part of the New York Division north of 23rd Street and New York City. The former New York City Division was designated the Second New York Division.

MAY 1, 1928 The Consolidated Returns Audit Division and the Field Audit Review Division were abolished and replaced with a new division designated as the Audit Review Division.

MAY 20, 1928 The Review Section of the Appeals Division of the Office of the General Counsel was created to consider appealed cases with the goal of reaching settlement without a hearing before the board.

MAY 29, 1928 The Revenue Act of 1928 became law. Income and surtax rates remained unchanged from 1926 (1½, 3, and 5 percent); corporate net income tax rates were reduced from 13.5 percent to 12 percent; the excise tax of 3 percent on manufacturers prices of passenger autos was repealed. Employee plan rules began with this act as did the first failure to pay penalty, with a flat rate of 25 percent of the tax due on





the return as the penalty regardless of how late it was.

**JUNE 29, 1928** The tax on grape brandy or wine spirits used for the fortification of wines was reduced from 60 cents to 10 cents per proof gallon effective this date. Wines could be removed or sold for the production of vinegar or dealcoholized wines tax free and the tax on dealcoholized wines containing less than one-half of 1 per cent of alcohol was repealed.

**JULY 1, 1928** The special tax on retail dealers in narcotic drugs was reduced from \$6 to \$3 a year.

**JULY 19, 1928** The General Counsel's office created a Review Division as the successor to the Review Section of the Appeals Division. This unit had the mission of trying to settle cases pending before the Board of Tax Appeals.

**1928** By this year, 257 Prohibition employees of the Bureau of Internal Revenue had been prosecuted and 706 removed from their positions for violations of the law or corrupt practices.

**1928** Branch offices of the General Counsel's office were established in the field to bring about closer cooperation with United States attorneys, collectors of internal revenue, and revenue agents in the handling of federal tax matters. Permanent representatives were assigned to New York, Chicago, Pittsburgh, Boston, Miami, Los Angeles, and Seattle. Later, an additional representative was assigned to St. Paul.

**1928** A Legislative Research Section was created in the Internal Revenue Bureau.

**1928-1936** Construction of Internal Revenue building.

**MARCH 5, 1929** The Interpretative Division was abolished in the General Counsel's office.

**MARCH 14, 1929** An Executive Order required the Review Division to allow taxpayer's hearings and gave this organization responsibility for preparing the public decision, upon claims for refund, credit, or abatement of income, war-profits, excess-profits, estate and gift taxes, when the allowance exceeded \$20,000.

**APRIL 1, 1929** A central waiver file was established in the Bureau to safeguard these important documents and institute a system that would permit notification of auditors 60 days in advance of waivers on file which were about to expire.

**MAY 31, 1929** David H. Blair resigned as Commissioner.

**JUNE 21, 1929** Robert H. Lucas of Kentucky became Commissioner.

**OCTOBER 8, 1929** Ralph Capone was arrested with a warrant signed by Arthur P. Madden, Agent-in-Charge of the Intelligence Unit in Chicago.

**DECEMBER 16, 1929** President Hoover signed a new revenue act providing for a \$160 million cut in the income tax. This act lowered income tax rates to 1/2, 2, and 4 per-





cent and lowered corporate tax rates from 12 to 11 percent.

1929 A legal division was established with the duty of reviewing cases involving substantial amounts of tax refunds.

1929 The Bureau instituted a system of punched cards to develop statistical data from additional taxes assessed.

1929 The National Tax Foundation estimated that the average American worked 19 minutes each day to pay his or her federal income taxes.

1929 In the case of *Mellon v. United States*, it was held that in the absence of statute, no interest would be paid on a disputed refund after the issuance of certificate requiring the United States to pay judgment against the collector. The United States became liable for the refund but not the interest.

1929 The Treasury Department announced plans to improve Prohibition enforcement.

JANUARY 16, 1930 The IRS established a Welfare Fund to assist employees in financial need.

FEBRUARY 1, 1930 The Sixth California Collection District was withdrawn from the boundaries of the San Francisco Division and a new division, the Los Angeles Division, was established.

MARCH 16, 1930 The state of Arizona was withdrawn from the boundaries of the Denver Division and annexed to the Los Angeles Division.

JUNE 1, 1930 The main section of the new Internal Revenue building was completed and occupied. The building was built on Constitution Avenue as part of the Federal Triangle complex of government buildings at a cost of approximately \$10 million. The design was inspired by Somerset House on London's Strand, which houses Britain's tax collection agency.

The contract was completed 16 months ahead of schedule with a total construction cost of \$6,395,026.33. Designed for 4,500 workers, the building was originally occupied by 3,391 Internal Revenue employees, 147 from the Board of Tax Appeals, 22 from the Customs Court and Patent Appeals, and 252 from the Public Buildings and Public Parks Commission.

JUNE 16, 1930 The Audit Review Division was reorganized upon a geographical basis rather than on a type of return basis.

JUNE 17, 1930 President Hoover signed the Hawley-Smoot Tariff Act which imposed the highest rates in American tariff history.

JULY 1, 1930 The Valuation Division was created, with five sections: appraisal, mining, oil and gas, timber, and securities. Personnel from the Miscellaneous Tax Unit and the Income Tax Unit involved in the determination of values were transferred to this new Division.







JULY 2, 1930 The role of the Special Advisory Committee was expanded to include cases involving legal questions, estate tax cases, income tax cases, and profits tax cases.

AUGUST 15, 1930 Robert H. Lucas resigned as Commissioner.

AUGUST 20, 1930 David Burnet of Ohio became Commissioner.

1930 The Justice Department took over primary enforcement duties for Prohibition from the Prohibition Unit of the Treasury Department. The duty remained with Justice until the repeal of Prohibition in 1933.

1930 The "George M. Cohan Rule" came into effect when a court ruled in favor of the Broadway star that the Bureau of Internal Revenue had to accept his word that some entertainment deductions were part of his business even though he could not produce records or receipts.

FEBRUARY 9-13, 1931 The 31 revenue agents-in-charge in the field offices of the Income Tax Unit met in Washington, D.C. for a conference.

MARCH 13, 1931 Al Capone was indicted for income tax evasion. The statute of limitations on the charges against Capone would have expired on March 15.

MAY 1931 A Grand Jury brought additional indictments against Al Capone for tax years 1924-1929.

JUNE 5, 1931 The indictment against Al Capone was returned on this day and Capone turned himself in.

JUNE 16, 1931 Al Capone appeared before Judge James H. Wilkerson and pled guilty to all charges, including income tax evasion and prohibition charges.

JULY 19, 1931 Capone's counsel withdrew his guilty plea after charges were made that a deal had been struck with the court for a reduced sentence.

SEPTEMBER 28, 1931 The Securities Section of the Valuation Division was charged with assembling all pertinent facts and relevant data concerning corporate reorganizations.

OCTOBER 6, 1931 Al Capone's trial for income tax evasion began.

OCTOBER 17, 1931 Al Capone was convicted of evading income taxes.

1931 The Wickersham Commission reported that enforcement of the Eighteenth Amendment was breaking down and recommended revision, but not repeal, of the Prohibition law.

JUNE 6, 1932 In the midst of the Depression, Congress passed the Revenue Act of 1932, raising tax rates, lowering exemption levels, and reinstating excise taxes on many manufacturers. This act was an attempt to balance the federal budget and uphold national credit by providing one of the greatest increases in taxation ever enacted in peacetime.





The rates rose to 4 percent on the first \$4,000 of income above the exemption level and 8 percent on income over \$4,000. Corporate tax rates were also increased. Surtaxes climbed to a maximum of 55 percent, estate tax rates were increased, and the gift tax was restored.

This act removed the tax credit for a taxpayer's "earned" income and initiated a one cent federal gasoline tax. Excise taxes were also introduced on motor vehicles, radios, phonographs, long distance telephone calls and telegrams, and checks. The federal deficit for fiscal year 1931 was \$903 million.

DECEMBER 31, 1932 The Travel Unit of the Audit Review Division was abolished and examiners were transferred to field divisions.

1932 The income tax law was amended to provide that U.S. presidents were liable for the tax on their salaries. Franklin Roosevelt became the first president since Lincoln to pay federal income tax on his presidential salary.

1932 President Hoover and his supporters had put forth a proposal for a national sales tax, but the measure was defeated in the House of Representatives by a vote of 236-160.

MARCH 22, 1933 An act legalized the sale of fermented liquors with alcoholic content of not more than 3.2 percent alcohol by weight.

MAY 12, 1933 Congress enacted the Agricultural Adjustment Act (AAA). This act sought to restore agricultural purchasing power by restricting pro-

duction and raising farm prices. The AAA countered the problem of farm surpluses by paying rentals for acreage withdrawn from production or by subsidizing restricted crops.

The funds for this program were raised by a tax on the processors of those farm products. The Bureau of Internal Revenue was given the duty of collecting the taxes authorized on wheat, cotton, field corn, hogs, rice, tobacco, and milk products.

JUNE 10, 1933 The House of Representatives authorized a Ways and Means Committee investigation to fortify and simplify the tax system. The final report of the investigation, with extensive recommendations to close loopholes, was issued in December 1933.

JUNE 16, 1933 The National Industrial Recovery Act became law, levying a 5 percent tax on dividends to be deducted and withheld at the source, an excess profits tax, and numerous changes to the income tax provisions of the Revenue Act of 1932.

JUNE 23, 1933 Orders were issued directing the Income Tax Unit to administer the provisions of section 213 of the National Industrial Recovery Act (the excise tax on dividends).

JUNE 1933 The Miscellaneous Division was abolished and a new Sales Tax Division was established to administer the new excise taxes imposed by the Revenue Act of 1932.





JULY 1–NOVEMBER 15, 1933 The settlement of tax cases was carried on by a Special Advisory Committee prior to the creation of the Technical Staff.

JULY 5, 1933 A committee was organized in the office of the General Counsel known as “the General Counsel’s Committee,” and composed of six members, including the General Counsel. The purpose of the committee was to expedite final decisions in cases and to coordinate rulings to minimize conflicting results in similar cases in different sections of the office.

JULY 9, 1933 The Secretary of Agriculture announced the first processing tax under the Agricultural Adjustment Act. This was a tax of 30 cents per bushel of 60 pounds on the first domestic processing of wheat.

SEPTEMBER 1, 1933 The Conference Unit of the Audit Review Division was established as an independent section operating under the immediate supervision of the office of the Deputy Commissioner. The Conference Section was designed to act as the settlement body for the unit with responsibility and authority similar to that of the Technical Staff.

OCTOBER 10, 1933 A Presidential order issued on June 10, 1933 became effective, allowing the Civil Division of the Office of the General Counsel to gradually turn over all civil internal revenue cases arising in federal district courts, the United States Court of Claims, and

the Supreme Court of the District of Columbia, to the Department of Justice.

NOVEMBER 16, 1933 The Special Advisory Staff was abolished and succeeded by the Technical Staff which had as its primary purpose settling tax disputes in cases docketed by the United States Board of Tax Appeals and cases in “90-day” status. The Technical Staff was given authority to bind the Commissioner to any settlement involving a deficiency of \$5,000 or less for any year.

DECEMBER 6, 1933 The 21st amendment to the Constitution took effect, resulting in the repeal of Prohibition.

DECEMBER 31, 1933 President Roosevelt issued a proclamation terminating the provision of the National Industrial Recovery Act which imposed a five percent excise tax on dividends.

1933 The Beer and Wine Revenue Bill became law. This bill legalized the manufacture and sale of beer and light wine and also levied a \$5 tax on 31-gallon containers of beer, wine, lager bill, ale, and porter.

1933 The gasoline excise tax was raised to 1½ cents per gallon.

MARCH 10, 1934 The office of Commissioner of Industrial Alcohol was abolished by Executive Order and the functions and duties of this position were transferred to the Commissioner of Internal Revenue. By the same order, the functions





and personnel of the Alcoholic Beverage Unit of the Division of Investigation, Department of Justice, were transferred to the Bureau of Internal Revenue. This executive order took effect on May 10, 1934.

MAY 15, 1933 David Burnet resigned as Commissioner.

JUNE 6, 1933 Guy T. Helvering of Kansas became Commissioner. He served the longest tenure of any Commissioner—over 10 years—until October 1943.

NOVEMBER 16, 1933 The Technical Staff began to provide a more direct and expeditious procedure to settle its tax disputes.

1933 The Internal Revenue Bureau received broad legislative authority under which it could reallocate items of income, deductions, credit or allowances between related organizations. This is now Section 482 of the Internal Revenue Code.

JANUARY 1, 1934 The Department of Justice established a Tax Division.

JANUARY 11, 1934 Congress passed a Liquor Taxing Act raising the tax on distilled liquors from \$1.10 to \$2.00 per gallon and increasing taxes on wine.

JANUARY 16-18, 1934 Internal revenue agents-in-charge in the field were called to Washington, D.C. for a general conference with Bureau officials.

FEBRUARY 16, 1934 Agents-in-charge were directed to assign cases for examination to avoid continued referral of particular cases to the same officer for successive years.

FEBRUARY 27, 1934 A committee was designated to develop procedures for coordinating the work of the Income Tax Unit and the Miscellaneous Tax Unit in the examination of excess-profits tax returns and capital-stock tax returns to insure a proper administration of section 216 of the National Industrial Recovery Act.

FEBRUARY 28, 1934 Treasury Decision 4422 was issued to clarify depreciation deductions. The House Ways and Means Committee had issued a report in late 1933 indicating that many claims for depreciation were excessive. Treasury Decision 4422 was an effort to resolve this issue without additional legislative action.

MARCH 10, 1934 Prohibition was officially repealed. The Bureau of Prohibition turned over its responsibilities from the Department of Justice to a newly created Alcohol Tax Unit within the Bureau of Internal Revenue.

MARCH 27, 1934 An act required businesses awarded contracts to build naval vessels or aircraft to pay any profits in excess of 10 percent of the contract price into the Treasury. This law also provided that if this "excess profits tax" was not voluntarily paid it would be collected under the internal revenue laws in the same manner as income taxes.



APRIL 21, 1934 Congress passed the Bankhead Cotton Act which taxed the ginning of cotton effective June 1, 1934 and provided for payment of this tax by exemption certificates issued to cotton producers by the Secretary of Agriculture. Payment of the tax was shown by tags affixed to bales of cotton.

MAY 10, 1934 The Revenue Act of 1934 became law, with the primary purpose of preventing tax avoidance and evasion. The act imposed a flat tax rate of 4 percent on the first \$4,000 of individual net income. The act also changed surtax brackets by increasing the rates on upper incomes and graduated the taxes on capital gains.

The most controversial provision was a 35 percent tax on the undistributed profits of personal holding companies. This act revived the excess profits tax at a rate of five percent of income in excess of 12.5 percent of the adjusted declared value of the capital stock of corporation income.

Section 512 created the basic legal organization of the Treasury Department—the Office of the General Counsel of the Treasury. Also, the Office of the Assistant General Counsel for Internal Revenue was conceived. The first General Counsel for Internal Revenue was Robert H. Jackson, later to become a justice of the Supreme Court.

The statutory period for filing a petition was extended from 60 to 90 days after issuance of a deficiency notice. A publicity amendment, sponsored by Senator Robert LaFollette, Jr., authorized the release to the public of each taxpayer's name, address, total gross income, total deductions

and credits, and tax payment, while not authorizing release of the income tax returns themselves.

MAY 10, 1934 The Bureau of Industrial Alcohol was consolidated with the Bureau of Internal Revenue. The Alcohol Tax Unit was established in the Bureau, charged with the administration of internal revenue laws relating to the production, warehousing, and tax payment of distilled spirits, alcohol, wines, fermented liquors, cereal beverages, denatured alcohol.

MAY 18, 1934 Congress enacted legislation which made killing a federal officer a federal offense.

JUNE 4, 1934 By order of the Commissioner, offers in compromise involving income tax liability were transferred to the Technical Staff.

JUNE 4, 1934 The constitutionality of new federal firearms regulations was upheld by the U.S. District Court for the Southern District of Florida in *U.S. v. Joseph H. Adams, et al.*

JUNE 12, 1934 The Reciprocal Trade Agreement Act of 1934 was signed into law. This was actually an amendment to the existing Smoot-Hawley Tariff of 1930. The new law authorized the President to negotiate bilateral trade agreements to raise or lower existing tariff rates by as much as 50 percent.

The law marked a turning point in tariff history with Congress delegating to the executive branch the authority for rate-setting that it had controlled for over 150 years.





**JUNE 18, 1934** Congress approved three acts relating to the taxation of alcohol, including laws relating to the regulation of production, marking, and sale of containers of less than five wine gallons, the control of materials commonly used in the production of illicit spirits and the repeal of sections of internal revenue laws which forbade the erection of a rectifying plant within 600 feet of a distillery.

**JUNE 19, 1934** The Silver Purchase Act of 1934 provided for the imposition of a tax equal to 50 percent of the net profit realized on the transfer of an interest in silver bullion. This tax was payable by stamp.

**JUNE 26, 1934** The National Firearms Act became law, aimed at preventing criminals from acquiring and using machine guns, silencers, sawed-off shotguns, etc. The act imposed special taxes on manufacturers, importers, and dealers in firearms as well as transfers of certain firearms. The act also regulated the importation and exportation and interstate transportation of such firearms and required the registration of all firearms as defined by the act on or before September 24, 1934 and a report of all transfers of such firearms on or after the effective date of that act.

The Alcohol, Tobacco, and Tax Division became responsible for investigation and detection of violations of this act. This represented the first federal gun control law.

**JUNE 28, 1934** Congress passed the Kerr-Smith Tobacco Control Act which taxed the sale of leaf tobacco. The tax was set at 25 percent of the

sale price of the tobacco, established by proclamation of the Secretary of Agriculture.

Effective July 1, 1935, the rate was fixed at one-third of the sale price. Adhesive stamps were provided by the Bureau as evidence of payment of the tax. The tax was not applicable to Maryland and Virginia sun-cured tobacco and cigar-leaf tobacco.

**JUNE 30, 1934** The Assistant General Counsel for the Bureau of Internal Revenue was delegated the functions and duties of the former General Counsel for Internal Revenue (delegated authority came from the newly established General Counsel for the Department of the Treasury).

**JULY 22, 1934** John Herbert Dillinger was gunned down by three FBI agents outside the Biograph Theater in Chicago. This marked the beginning of a new effort by the federal government to control some of the most violent criminal activity witnessed in the nation.

**JULY 1934** The Silver Tax Division was organized to administer the tax imposed under the Silver Purchase Act of 1934.

**SEPTEMBER 12, 1934** By proclamation of the President, the processing and related taxes with respect to sugar under the Agricultural Adjustment Act were made applicable to the Philippine Islands, thus widening the geographic scope of the act.





SEPTEMBER 25, 1934 The Reorganization Section of the Office of the Assistant General Counsel was established to protect the claims and interest of the U.S. in corporate reorganization proceedings instituted under the National Bankruptcy Act.

SEPTEMBER 1934 Bruno Richard Hauptmann was arrested in the Lindbergh kidnapping case after an intensive investigation in which the Intelligence Unit of the Bureau of Internal Revenue provided assistance.

SEPTEMBER 1934 A committee of Internal Revenue agents-in-charge met in Washington, D.C. to review the organization and procedures in the field divisions of the Income Tax Unit.

OCTOBER 1, 1934 The processing and compensating taxes of the Agricultural Adjustment Act were made applicable to peanuts.

NOVEMBER 1, 1934 The first of several special projects to investigate evasions of manufacturers' excise taxes on jewelry, radios, furs, sporting goods, and cosmetics and taxes on admissions, dues, and documentary stamps began in the Third New York Collection District.

NOVEMBER 1, 1934-JUNE 16, 1935 Under the provisions of Executive Order No. 6166, the function of disbursing was transferred from collectors' offices to regional offices of the Division of Disbursement, Treasury Department.

NOVEMBER 16, 1934 Tax Unit Orders Numbers 297 and 301 prescribed a standardized organization for field divisions of the Income Tax Unit. These orders provided standard methods for assigning income tax returns for verification and the preparation of reports by agents on the income tax liability of taxpayers; established uniform methods for the preparation of monthly production reports and annual efficiency ratings; and revised the descriptions of all positions in the field service.

1934 The Bureau created a Legislative and Regulations Division to assist in the development of tax legislation and regulations.

1934 The Silver Purchase Act of 1934 imposed a tax equal to 50 percent of the net profit realized on the transfer of an interest in silver bullion, with certain exemptions and rights of abatement.

1934 The statute of limitations to assess additional taxes for returns filed for 1934 and beyond was increased from two to three years.





*Taxpayers line the halls of the new National Office of the Bureau of Internal Revenue waiting for tax assistance.*

*1935 - 1941*

SOCIAL SECURITY AND FIREARMS CONTROL:  
NEW RESPONSIBILITIES FOR THE  
TAX COLLECTOR



The repeal of Prohibition did not reduce the responsibilities of the Bureau of Internal Revenue. In 1935, Congress passed the Social Security Act, with the Bureau given the task of collecting payroll taxes and turning them over to the Social Security Trust Fund. Added responsibilities came with the Federal Firearms Act which gave the Alcohol and Tobacco Tax Division of the Bureau of Internal Revenue the job of enforcing violations of firearms registration requirements.



JANUARY 1, 1935 The tax on checks was repealed.

JANUARY 1, 1935 The Capital Stock Tax Division was created, succeeding the Capital Stock Tax Section of the Sales Tax Division. The enactment of Section 701 of the Revenue Act of 1934 made administration of the capital stock tax a permanent and major function of the Bureau, necessitating creation of a division-level function to administer this tax.

JANUARY 22, 1935 The Reorganization Section of the Office of the Assistant General Counsel was consolidated with the Bankruptcy and Receivership Section.

FEBRUARY 26, 1935 The Technical Staff took over handling applications for extension of time to pay income tax and deficiencies in income tax.

MARCH 1, 1935 All breweries were required to install beer meters on or before this date so that the tax could be collected on the basis of meter readings.

MARCH 7, 1935 A Ways and Means Committee report recommended that Section 55(b) of the Revenue Act of 1934 (commonly referred to as the 'pink slip' section) be repealed. This section provided for publishing the name, address, gross and net income, deductions, credits, and tax payable of individuals.

APRIL 1, 1935 The processing and compensating taxes of the Agricultural Adjustment Act were made applicable to rice.

MAY 1, 1935 The Valuation Division was reorganized and renamed the Engineering and Valuation Division. The Oil and Gas Section and the Mining Section were combined into the Natural Resources Section. The Timber Section was abolished and its work transferred to the Natural Resources Section. A Public Utilities Section was created.

MAY 1, 1935 The Bureau of Internal Revenue hired 300 new revenue agents. Training schools were established in Brooklyn, Chicago, Cleveland, Dallas, Detroit, Manhattan, Newark, Philadelphia, and San Francisco.

JUNE 19, 1935 President Roosevelt sent Congress a message recommending drastic changes to the federal system of taxation to prevent concentration of wealth and economic power. Roosevelt criticized the existing revenue system and recommended increasing surtaxes on high incomes, inheritance taxes, and graduated corporate income taxes.

JUNE 30, 1935 The part of the upper New York division included in the fourteenth collection district of New York, with the exception of Bronx and Westchester Counties, was assigned to the Buffalo division, relieving the upper New York division agent-in-charge of extraterritorial responsibilities, and permitting his full attention to be given to the New York City area.

JULY 31, 1935 President Roosevelt held a press conference in which he informed the public that 58 persons reporting incomes over \$1 million





in 1932 had paid no federal taxes on 37 percent of their net incomes, primarily through holding tax exempt securities.

AUGUST 14, 1935 Roosevelt signed the Social Security Act. Employers and employees originally paid one percent of the first \$3,000 of salaries and wages to finance the benefits.

This new law introduced a new system of tax withholding and the Bureau of Internal Revenue was given responsibility to collect the payroll taxes and turn them over to the Social Security Trust Fund. The law also created a program of unemployment compensation, funded by a federal payroll tax to be administered by the individual states.

AUGUST 30, 1935 The Revenue Act of 1935, also known as the "Wealth Tax Act," became law and increased surtax rates on net incomes above \$50,000, from 63 to 79 percent. The act also established a graduated income tax on corporations and increased gift and estate taxes. The rate of interest on unpaid federal taxes was set at 6 percent and an inheritance tax was imposed.

AUGUST 30, 1935 Congress approved the Coal Act which imposed an excise tax of 15 percent upon the sale or other disposal of all bituminous coal produced in the United States.

AUGUST-SEPTEMBER 1935 The Bureau of Internal Revenue began administering two Works Progress Administration projects, including a "survey of miscellaneous taxes" and an income tax project.

SEPTEMBER 1, 1935 The Bureau began an inspection of retail liquor dealers in 91 cities to ensure that the dealers complied with the requirements of the law.

OCTOBER 1, 1935 The Social Security Division was created to administer the taxes imposed under the Carriers Taxing Act and the Social Security Act (title VIII).

1935 The right to inspect individual tax returns was extended to state tax officials for the first time. This provision was not formalized until 1950.

1935 The Federal Alcohol Administration Act (FAA) was passed, creating licensing and permit requirements and establishing regulations designed to ensure an open and fair marketplace to the legal businessman and consumer.

1935 The Bureau of Internal Revenue emphatically restated its policy against answering questions with respect to proposed transactions, noting that such rulings would only be issued where required by law.

JANUARY 1, 1936 The Social Security tax took effect. The tax was essentially an excise on employers with eight or more employees, with a rate of one percent on wages for 1936 with provision for credit not exceeding 90 percent of the tax for contributions to state unemployment funds. The tax was due on January 31 following the close of the year.







JANUARY 6, 1936 The Supreme Court, in *United States v. Butler*, ruled that the Agricultural Adjustment Act and the taxes imposed by it were unconstitutional. The tax on processors of agricultural commodities was determined to be an integral part of an improper regulatory scheme that took money from one group to benefit another. The collection of processing taxes was immediately suspended.

JANUARY 20, 1936 Internal Revenue agents-in-charge and other field officials of the Bureau met in Washington, D.C. for a conference with Bureau officials to discuss plans to accelerate work on 1934 income tax returns and other significant issues.

FEBRUARY 10, 1936 Congress repealed the Kerr Tobacco Act, the Bankhead Cotton Act, and the Potato Act.

MARCH 3, 1936 Roosevelt called for new taxes to produce \$1 billion in revenue through three new taxes: the windfall profits tax, a temporary agricultural products processing tax, and a graduated tax on undistributed corporate income.

MARCH 27, 1936 The Cleveland Division was authorized to issue statutory notices of deficiency (90-day letters) beginning April 1, 1936 with the revenue agent-in-charge designated to represent the Commissioner, assuming the usual duties of the Income Tax Unit in Washington, D.C., in negotiations for settlement.

This was the first major effort to decentralize the work of the Bureau and to provide a more convenient and less costly method for taxpayers dispose of their income tax cases.

APRIL 10, 1936 The National Firearms Act was amended to exclude any rifle having a caliber of .22 or smaller, if the length of its barrel was 16 inches or more, from the provisions of the act.

MAY 18, 1936 The Supreme Court declared the coal act and the taxes imposed by this act invalid.

JUNE 22, 1936 The Revenue Act of 1936 levied an undistributed profits tax and imposed surtaxes known as the "accumulated earnings tax" ranging from 7 to 27 percent on undistributed profits from corporate incomes. Title III of this act included the Unjust Enrichment Tax which imposed a tax of 80 percent on certain sources of income.

The Income Tax Unit was given responsibility for collecting these taxes. The failure to pay penalty was changed to 5 percent per month with a maximum of 25 percent. The penalty could be waived if failure to file was due to reasonable cause and not due to willful neglect.

JUNE 26, 1936 The Liquor Tax Administration Act of 1936 permitted withdrawals of distilled spirits for tax payment in packages and tank cars direct from distillery cistern rooms and from internal revenue bonded warehouses.





The Federal Alcohol Administration was separated from the Treasury Department and set up as an independent establishment of the government by this act.

This act also prescribed and defined penalties for the possession of machine guns and devices to produce smoke screens while violating any law relating to liquors.

AUGUST 19, 1936 The Audit Review Division was abolished and the sections making up that division were established as independent divisions designated as Divisions A to E. This was part of an ongoing effort to increase cooperation between the field and Washington divisions of the Unit. The Review Unit of the Audit Review Division was designated as the Review Division.

DECEMBER 1936 The first overseas representative of the Bureau of Internal Revenue arrived in Manila.

APRIL 1, 1937 An automatic extension for filing social security taxes for 1937 was granted until this date for all taxpayers. The normal due date was January 31.

APRIL 26, 1937 Congress approved the Bituminous Coal Act of 1937, imposing an excise tax of 1 percent per ton of 2,000 pounds upon the sale or other disposal of bituminous coal produced within the United States when disposed of by the producer and an additional excise tax equal to 19.5 percent of the sale price at the mine of coal disposed of by nonmembers of the Bituminous Coal Code. The tax took effect June 21, 1937.

MAY 12, 1937 The Revenue agents-in-charge of divisions in the field assembled in Washington, D.C. for a three-day conference with Treasury and Bureau officials to study issues confronting the field forces and to recommend improvements.

MAY 24, 1937 The Supreme Court held that taxes imposed by Titles VIII and IX of the Social Security Act were valid.

JUNE 1, 1937 Roosevelt sent a message to Congress citing the problem of tax evasion and requested legislation to make "the present tax structure evasion-proof."

JUNE 29, 1937 The Carriers Taxing Act was approved to collect employers' and employees' taxes.

JULY 1, 1937 The Bureau of Internal Revenue completed plans to establish a Social Security Tax Unit, to be responsible for administration of taxes imposed by Titles VIII and IX of the Social Security Act and the Carriers Taxing Act of 1937.

AUGUST 26, 1937 The Revenue Act of 1937 raised tax rates on undistributed adjusted net income of personal holding companies. This was seen as a step toward closing some loopholes in the income tax laws. This act also introduced constructive ownership rules for determining stock ownership, to prevent deductions arising from "family" transactions.





SEPTEMBER 1, 1937 The tax imposed on manufactured sugar took effect.

OCTOBER 1, 1937 The Marihuana Tax Act of 1937 became effective and imposed an occupational tax upon certain dealers in marihuana and transfer taxes upon certain dealings in marihuana. This law was administered jointly by the Bureau of Internal Revenue and the Bureau of Narcotics.

NOVEMBER 1, 1937 Responsibility for the final audit of social security tax returns was transferred to the field from the headquarters office in Washington, D.C.

1937 The first union of employees of the Bureau of Internal Revenue, the National Association of Internal Revenue Employees (NAIRE), was formed in the Milwaukee District.

1937 The Railroad Retirement Tax Act of 1937 placed a tax on the compensation of railroad employees and required the employer to withhold the tax, providing a new use of withholding.

JANUARY 1, 1938 A system of quarterly returns for collecting social security taxes was adopted, replacing the previous 14 returns required each year from employers under title VIII of the Social Security Act.

JANUARY 14, 1938 The Ways and Means Subcommittee on Internal Revenue Taxation submitted a report recommending changes in taxes and the administration of the tax system.

JANUARY 1938 The Bureau of Internal Revenue and the Social Security Board approved a plan for coordination between the two organizations.

MARCH 1, 1938 An experimental program of decentralization of functions of the Bureau of Internal Revenue began with the establishment of the Los Angeles Division of the Technical Staff. The head of this Division was given authority to act for the Commissioner in settling certain income and profits tax cases of taxpayers located in southern California and Arizona.

APRIL 1, 1938 The Accounts and Collections Unit assumed responsibility for administration of the taxes under the Social Security Act and the Carriers Taxing Act of 1937, assuming responsibilities previously performed by the Social Security Tax Unit.

APRIL 26, 1938 The Revenue Act of 1938 overhauled corporate tax rates and altered the method of taxing capital gains. The act reduced taxes on large corporations while increasing taxes on small corporations. The excise tax on furs was repealed.

MAY 23, 1938 The Supreme Court held state employees subject to the federal income tax.

MAY 28, 1938 The Revenue Act of 1938 became law without the President's signature. Roosevelt expressed disapproval of the large tax break it provided for large corporations. This act curtailed the wind-





fall profits tax and reduced capital gains taxes. Congress approved a provision allowing for the inspection of federal tax records by designated state tax officials.

JUNE 12, 1938 A new division was established in the Income Tax Unit to administer claims for refund of processing taxes and related floor stock tax claims requiring field investigation beginning July 1, 1938. Such claims had been administered by the Processing Tax Division of the Miscellaneous Tax Unit.

JUNE 25, 1938 The Railroad Unemployment Insurance Act was approved, to be administered by the Railroad Retirement Board. This act provided exclusion from the tax imposed by title IX of the Social Security Act of compensation for service performed for an employer defined in the act.

JUNE 25, 1938 Provision was made in the Second Deficiency Appropriation Act for refunding taxes collected under the Bankhead Cotton Act of 1934, the Kerr Tobacco Act, and the Potato Act of 1935.

JUNE 30, 1938 The Federal Firearms Act became law. This act was designed to regulate the interstate traffic in firearms and ammunition by making it a federal crime for felons and fugitives to receive firearms in interstate commerce. The Alcohol and Tobacco Tax Division was responsible for investigation and detection of violations. The act required licensed dealers to maintain purchase and sales records of all firearms transactions.

JULY 1, 1938 The decentralization of the Technical Staff began with the creation of the Pacific Staff Division and was completed with the establishment of the Atlantic Staff Division on May 1, 1939. A total of 10 staff divisions were created. The number was raised to 12 in 1948.

SEPTEMBER 3, 1938 The final audit of returns under the Carriers Taxing Act of 1937 was transferred from the Bureau headquarters in Washington to field collectors because it was believed that such audit could be conducted more efficiently through closer contact with taxpayers.

1938 The Bureau of Internal Revenue opened an overseas office in Paris. This was the second international post put in operation.

1938 Legislation authorized the Bureau of Internal Revenue to enter into formal closing agreements with a taxpayer under which both parties were legally bound to the interpretation agreed upon for the particular transaction.

FEBRUARY 10, 1939 Internal revenue laws were codified as the "Internal Revenue Code of 1939," bringing logic and simplification to the tax system.

MARCH 1939 The Bureau of Internal Revenue and the Railroad Retirement Board adopted a plan for coordination similar to that in effect between the Bureau and the Social Security Board to achieve uniformity and consistency in the interpretation and application of similar provisions of the Carriers Taxing Act of 1937.





APRIL 12, 1939 The Public Salary Tax Act of 1939 amended the income tax code to provide for taxation of compensation of state and local employees, teachers in Alaska and Hawaii, and judges of the courts of the United States who took office on or before June 6, 1932.

JUNE 29, 1939 Congress enacted the Revenue Act of 1939, which revised the two-year net operating loss carry-forward for corporations from the 1920s, increased corporate tax rates to a flat rate of 18 percent on those with incomes above \$25,000, and extended the excise taxes scheduled to expire in 1939 for two years. This act failed to extend the undistributed-profits tax beyond 1939, in effect abolishing the windfall profits tax.

JULY 1, 1939 Appointive power for deputy collectors was transferred from collectors to the Secretary of the Treasury.

AUGUST 10, 1939 The Social Security Act Amendments retitled the payroll tax "insurance contributions" under the Federal Insurance Contributions Act (FICA) as part of the Internal Revenue Code (Subchapter A of Chapter 9) and Subchapter C as the Federal Unemployment Tax Act. Taxes imposed in these areas were now generally referred to as "employment taxes."

SEPTEMBER 6, 1939 In continuation of the effort to decentralize operations, the jurisdiction over offers in compromise of income, profits, and unjust enrichment taxes was delegated to the field divisions of the Technical Staff.

SEPTEMBER 14, 1939 The Commissioner issued a mimeograph governing the functions and jurisdiction of the field divisions of the Technical Staff, creating 10 field divisions.

1939 The National Office Technical Staff was formed, under the direction of Aubrey R. Marrs.

1939 The Public Salary Tax Act extended the income tax to federal, state, and local judges and federal judges who had taken the oath of office before 1932.

1939 The National Tax Foundation estimated that the average American worked 40 minutes every day to pay his or her federal taxes, more than double the 19 minutes estimated 10 years earlier.

The average American blue-collar worker paid no income tax at all; the average lawyer or doctor paid about \$25 a year; a highly successful businessman with an annual net income of \$16,000 owed the federal government less than \$1,000.

JUNE 25, 1940 The Revenue Act of 1940 raised the federal debt limit to \$4 billion in order to authorize the issuance of defense bonds. This act increased federal surtaxes on most individual income tax brackets by imposing a defense supertax of 10 percent on most existing internal revenue taxes. Personal exemptions were reduced by 60 percent and corporate tax rates increased only slightly in anticipation of a new excess profits tax.

This act also raised excise taxes on distilled spirits, wines, cigarettes, and playing cards. This act imple-







mented the use of the gross rather than net income to determine the need to file an income tax return. This act increased tax rates on corporations, individual surtax rates, and nonresident aliens. This act imposed a flat tax of 10 percent of the tax computed, designated as a "Defense Tax," effective for a five-year period.

**JUNE 30, 1940** The Federal Alcohol Administration merged with the Alcohol Tax Unit of the Bureau of Internal Revenue to combine related law enforcement and regulatory authorities as a result of the Federal Alcohol Administration Act.

**JULY 1, 1940** President Roosevelt sent a special message to Congress requesting immediate enactment of "a steeply graduated excess profits tax, to be applied to all individuals and all corporate organizations without discrimination." This was in accordance with Roosevelt's promise of May 22, that "not a single war millionaire will be created as a result of the war disaster."

**OCTOBER 8, 1940** Congress enacted the second Revenue Act of 1940 which increased corporate tax rates and imposed a graduated excess profits tax on corporations with rates up to 50 percent.

**OCTOBER 17, 1940** Congress enacted the Soldiers' and Sailors' Civil Relief Act of 1940 which provided that no sale of property of a person in military service shall be made, or any proceeding or action commenced, to enforce the collection of

taxes, if such person showed that by reason of such military service his ability to pay the tax was affected.

**1940** The first series of articles prepared by the Bureau of Internal Revenue for publication in newspapers under the title "Your Federal Income Tax," appeared this year. The success of this publication established the taxpayer publications program as a major part of the effort to provide taxpayer assistance.

**1940** The Bureau of Internal Revenue began informing taxpayers by letter, when an inquiry was made, of the position it would take if a closing agreement were entered into. This marked the birth of the private letter ruling process.

**MARCH 7, 1941** Congress amended the Excess Profits Tax Act of 1940, providing relief for certain items not covered by the original act.

**APRIL 23, 1941** An Executive Order placed deputy collectors under classified civil service laws. This order was issued under the authority of the Ramspeck Act of November 26, 1940. At this time about 8,000 persons were holding positions with the title of Deputy Collector.

**JULY 1, 1941** As of this date, all appointments to positions of Deputy Collector of Internal Revenue were to be made in accordance with civil service rules. Prior to this, appointments to these positions were made without regard to civil service rules. Positions of collector were still political appointees.





AUGUST 4, 1941 The House of Representatives passed a tax bill put forth by Representative Robert L. Doughtons of North Carolina which eventually became the Revenue Act of 1941.

AUGUST 9, 1941 A position for an executive assistant was established in the office of the Commissioner. This individual was responsible for supervising and coordinating the activities of the Administrative and Personnel Divisions.

AUGUST 29, 1941 The Alcohol Tax Unit was given responsibility for administering the Federal and National Firearms Acts.

SEPTEMBER 20, 1941 The Revenue Act of 1941 became law and was hailed by the *New York Times* as "by far the heaviest and most broadly based tax levy ever adopted by this country." This act was the largest single revenue measure passed in American history to this time and increased the income tax by raising surtax rates and corporate rates, bringing total government revenue to \$13 billion. The act made the 10 percent Defense Tax permanent, imposed a variety of new excise taxes, and increased overall rates.

OCTOBER 1, 1941 The Bureau created a Miscellaneous Division with responsibility for administering documentary stamp taxes, taxes on oleomargarine, narcotics and marihuana, bituminous coal, silver, hydraulic mining, transportation of oil by pipe line, admissions, dues, safe deposit boxes, telephone, telegraph, radio and cable facilities, processing of coconut oil and other vegetable oils, and the administration of the National Firearms Act and the Federal Firearms Act. The administration of these taxes was transferred from the Sales Tax Division and the Processing Tax Division. The Processing Tax Division was abolished.

DECEMBER 26, 1941 The termination date of the taxes on sugar was postponed from June 30, 1942 to June 30, 1945.

1941 The Bureau of Internal Revenue adopted a new and shorter income tax 1040 return.

1941 The standard deduction was introduced in the tax tables this tax year.



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*1942-1949*  
WORLD WAR II AND THE INCOME TAX:  
A MARRIAGE OF CONVENIENCE  
THAT SURVIVED

The entry of the United States into World War II placed heavy economic demands on the country. To raise revenues, Congress dropped the threshold for payment of income taxes to the lowest level ever, bringing over 50 million new taxpayers into the system for the first time. To educate these new taxpayers, the Bureau of Internal Revenue launched a major educational campaign. This resulted in widespread acceptance of the income tax into virtually all American households for the first time.

JANUARY 24, 1942 Congress authorized the withdrawal of distilled spirits without payment of tax under certain circumstances during World War II.

MARCH 7, 1942 Congress extended under certain circumstances the time for filing income tax returns and the payment of income taxes in the case of individuals in the armed forces and civilian officers and employees of any department or agency of the United States.

MARCH 28, 1942 The Public Debt Act of 1942 removed tax exemption privileges on dividends, earnings, or other income or gain from shares, certificates, stock, or other evidences of ownership issued on or after March 28, 1942 by the United States or any agency or instrumentality thereof.

APRIL 28, 1942 Congress made the services of the Bureau of Internal Revenue available to the War and Navy Departments and the Maritime Commission to the extent determined by the Secretary of the Treasury for the purposes of making examinations and determinations with respect to profits derived from the renegotiation of certain government contracts.

OCTOBER 2, 1942 The Salary Stabilization Act amended the Emergency Price Control Act of 1942 and became law. This act authorized and directed the President to issue an order stabilizing wages and salaries on the basis of the levels which existed on September 15, 1942.

Wages and salary regulations of the Economic Stabilization Director conferred authority upon the Commissioner of Internal Revenue to administer the provisions relating to the stabilization of certain salaries.

OCTOBER 8, 1942 Production of distilled spirits for beverage purposes was discontinued, with the exception of brandy and rum.

OCTOBER 21, 1942 President Roosevelt called the 1942 Revenue Act "the greatest tax bill in American history." The act sharply increased most existing taxes, introduced the Victory Tax (a 5 percent surcharge on all net income over \$624 with a postwar credit), lowered exemptions, began provisions for medical and dental expenses and investors' expense deductions, and began in a small way the collection at the source procedure which was later to be carried out on a larger scale.

Increased tax rates in this act were applicable to earnings for the year 1942. Overall, this act added enormous complexities to the tax system and broadened the tax base by over 100 percent. The Secretary of the Treasury recorded that President Roosevelt said, "The bill might as well have been written in a foreign language." The Board of Tax Appeals became the Tax Court.

DECEMBER 11, 1942 Congress passed the Opium Poppy Control Act of 1942 which provided for domestic control of the production and distribution of the opium poppy and its products through licensing. Because of widespread





use of opium to relieve the pain of wounded soldiers in World War II, Congress deemed it unwise to prohibit production of opium completely at this time.

1942 A Gallup Poll revealed that of the 34 million Americans subject to the income tax for the first time, fewer than 15 percent were setting aside money to make the payment.

1942 The Bureau of Internal Revenue created a special section to handle collection and compromise matters in bankruptcy and receivership proceedings.

1942-1969 The Board of Tax Appeals became the Tax Court of the United States. The organization was given jurisdiction over refunds of certain processing taxes.

JUNE 9, 1943 The Current Tax Payment Act of 1943 was passed and provided for a 20 percent withholding tax after July 1, 1943 with forgiveness of 75 percent of the lesser of 1942 or 1943 tax liability. The act provided a permanent system of withholding and quarterly estimated tax payments from certain sources of income. This act eliminated installment payments and introduced prepayment of tax obligations in the form of the estimated tax.

JULY 1, 1943 Withholding of wages and salaries went into effect and put taxpayers on a pay-as-you-go basis.

OCTOBER 8, 1943 Guy T. Helvering resigned as Commissioner.

OCTOBER 9, 1943 Robert E. Hannegan of Missouri became Commissioner.

NOVEMBER 1, 1943 A Processing Division, under the Accounts and Collection Unit, was established in New York City to provide a centralized organization for performing new tax collection tasks—using electronic typewriters and key-driven booking machines to match withholding forms to returns on a limited basis. This was the first recognition of the potential benefits of centralized, modern data processing techniques in the Bureau.

DECEMBER 22, 1943 Congress amended the Internal Revenue Code to suspend automatic increases in social security tax rates under the Federal Insurance Contributions Act for the first two months of 1944.

1943 A five percent Victory Tax was withheld at the source during the first six months of the year.

1943 The Supreme Court sanctioned the validity of using the “net worth theory” in investigating criminal tax cases in *United States v. Johnson*. This decision did not specify acceptable procedures for conducting net worth investigations, leading to additional questions regarding this investigative technique through the mid-1950s.

1943 The Bureau of Internal Revenue provided taxpayer assistance on an informal basis by broadcasting







tax information over public address systems in federal buildings.

JANUARY 22, 1944 Robert E. Hannegan resigned as Commissioner.

JANUARY 1944 President Roosevelt recommended tax simplification in his 1944 budget message to Congress. Ways and Means Committee Chairman Robert Doughton of North Carolina promised simplification would be the top priority.

FEBRUARY 22, 1944 President Roosevelt vetoed the Revenue Act of 1943—the first veto of a revenue bill in American history. Roosevelt referred to this bill as “not a tax bill, but a tax relief bill, providing relief not for the needy but for the greedy.”

FEBRUARY 24-25, 1944 The House (299-95) and the Senate (72-14) overrode the President’s veto and enacted the Revenue Act of 1943, making this act the first revenue bill to become law over a presidential veto. This act repealed the earned income credit and the victory tax credit, reduced the victory tax rate from 5 to 3 percent, increased the excess profit tax rate from 90 to 95 percent, increased many excise taxes, and made many other changes in the tax code.

MARCH 1, 1944 Joseph D. Nunan, Jr., of New York became Commissioner.

APRIL 1, 1944 The tax rate on fermented malt liquors was increased from \$7 to \$8 a barrel.

MAY 29, 1944 The President signed the Individual Income Tax Act of 1944. This act simplified the income tax for persons with small incomes, replaced the Victory Tax with a new 3 percent normal tax on net income, lowered tax rates, and increased surtaxes.

Adoption of the standard deduction of 10 percent and uniform personal exemptions of \$500 were part of this act, which expanded the tax base to cover nearly all Americans. Tax rates ranged from 20 to 91 percent with taxes withheld directly from paychecks.

JUNE 9, 1944 The Public Debt Act of 1944 reduced the war tax rate on amounts paid at cabarets, roof gardens, etc., from 30 percent to 20 percent.

JUNE 20, 1944 Congress repealed the tax on sugar after June 30, 1947.

JUNE 30, 1944 Congress extended the provisions of the wage and salary stabilization program through June 30, 1945.

DECEMBER 22, 1944 Congress authorized collectors of internal revenue to receive certified, cashiers’ and treasurers’ checks drawn upon National and State banks and trust companies, and U.S. postal, bank, express, and telegraph money orders in payment for internal revenue taxes.

1944 Permission was granted for taxpayers with income from wages of less than \$5,000 to have their tax computed by the Bureau of Internal Revenue. This limit was increased to \$10,000 in 1969.





JULY 31, 1945 The Tax Adjustment Act of 1945 provided for speedy tax refunds and relieved smaller businesses of some of the burdens of the excess profits tax.

SEPTEMBER 1945 The Alcohol Tax Unit began an intensive investigative program to register machine guns, machine pistols, and other firearms under the purview of the National Firearms Act.

NOVEMBER 8, 1945 The Revenue Act of 1945 was passed to improve "the cash position of business by advancing the time of payment of postwar tax refunds and credits..." the major thrust of this bill was to speed refunds from net operating loss carrybacks. This act provided tax reductions for individuals and businesses.

DECEMBER 16, 1945 A new division was formed in the Miscellaneous Tax Unit, known as the Tobacco and Capital Stock Tax Division, assuming the duties formerly performed by the Tobacco Division and the Capital Stock Tax Division. This new division was concerned with administration of laws relating to taxes on the manufacture, sale, or removal of tobacco, snuff, cigars, and cigarettes, etc.

1945 The first planning office for Internal Revenue was established, called the "Management Staff" and directed by an assistant to the commissioner.

1945 The Bureau of Internal Revenue began selling a booklet explaining how to fill out Form 1040 titled, "Your Federal Income Tax."

1941-1945 The Roosevelt administration hoped to pay for at least half the cost of World War II by increased taxation. Wider ranging tax laws and the new policy of withholding taxes from paychecks led to a doubling of individual returns during this period. Still, the goal of meeting 50 percent of the war's cost by taxation was not met. Approximately 43 percent was raised through taxes.

JANUARY 1, 1946 The Revenue Act of 1945 repealed the excess profits tax effective this date.

MARCH 8, 1946 Congress amended the Internal Revenue Code to include among the narcotic drugs taxable and otherwise controlled under the Code, any opiate found to have addiction-forming or addiction-sustaining properties similar to morphine or cocaine; and to permit producers of fiber or fiber products to secure supplies of the plant *Cannabis sativa* L., from which marihuana was produced, without payment of the tax on the transfer of marihuana.

MARCH 25, 1946 The Employment Tax Unit was created to administer employment taxes under the Internal Revenue Code. Prior to this, the work was performed by the Accounts and Collections Unit.





APRIL 1, 1946 The Commissioner proposed that the Bureau create a board to administer the excess profits tax.

MAY 25, 1946 The Excess Profits Tax Council was established as a field group within the Technical Staff to supervise and settle cases pending before the Bureau of Internal Revenue with respect to applications for relief under the provisions of Section 722 of the Code. The original membership of the committee was limited to 15.

JULY 16-17, 1946 The Excess Profits Tax Council held its first organizational meetings.

JULY 25, 1946 Congress extended the provisions of the wage stabilization program through June 1947.

SEPTEMBER 1, 1946 Elmer Irey retired as Chief of the Bureau's Intelligence Unit. Irey had served in this position since 1919.

OCTOBER 7-9, 1946 The roots of the reorganization of tax administration took hold when Treasury Secretary John W. Snyder called a meeting of key revenue officials to plan for streamlining and modernizing the Bureau of Internal Revenue and to start a management improvement program to ease the transition to peacetime operations. This was the first such conference held in Washington, D.C. in a decade.

OCTOBER 31, 1946 The Secretary of the Treasury addressed a letter to all Bureau chiefs urging the streamlining of operations and other administrative improvements.

OCTOBER 1946 The Excess Profits Tax Council began reviewing specific taxpayer cases.

NOVEMBER 15, 1946 A Special Committee on Administration in the Bureau of Internal Revenue was appointed to appraise the ideas and suggestions submitted by key officials at the October management conference. This Committee submitted its final report in August 1947.

NOVEMBER 9, 1946 The President terminated all wage and salary controls provided for by the Stabilization Act of 1942.

DECEMBER 12, 1946 The President transferred the functions of the National Wage Stabilization Board to the Department of the Treasury.

DECEMBER 16, 1946 The Commissioner delegated part of his responsibilities in the area of audit to the collectors in a mimeograph issued this date. This included authority for investigation and audit of all individual returns with adjusted gross income of less than \$7,000 and business returns less than \$25,000. This also included authority to make refunds in connection with returns retained for audit of less than \$1,000.





1946 An internal proposal advocated a return to the old policy of ruling only on completed transactions, but the informal procedure established in 1940 continued throughout the 1940s and into the 1950s.

JANUARY 14, 1947 The Treasury Secretary set up a Committee on Employee Awards, inviting all employees to send in ideas and suggestions for improving operations. The program included cash incentive awards for employees whose ideas resulted in economies.

MARCH 7, 1947 The functions of the National Wage Stabilization Board were transferred from the Treasury Department to the Commissioner of Internal Revenue.

MARCH 11, 1947 Congress approved the Excise Tax Act of 1947 which continued the increases in excise and other miscellaneous tax rates made by the Revenue Act of 1943.

MARCH 25, 1947 The Treasury Department sent another letter to Bureau heads urging accelerated efforts to improve management and reduce expenses.

MAY 23, 1947 In an effort to combat the importation of thousands of dangerous war trophies by military personnel (semiautomatic firearms, grenades, land mines, projectiles, etc.) the Treasury, Navy, Army, Air Force, National Rifle Association, Customs, and Coast Guard combined efforts to develop a public relations program to bring to the attention of the public the danger

of possessing and handling these items.

MAY 29, 1947 The functions, duties, and powers of the Secretary of Agriculture relating to the enforcement of agricultural wage and salary regulations under the Stabilization Act of 1942 were transferred to the Secretary of the Treasury. In turn, this responsibility was transferred to the Commissioner of Internal Revenue.

JUNE 6, 1947 President Truman vetoed a tax reduction bill, arguing that it was "the wrong tax reduction at the wrong time." A House motion to override the veto failed by two votes. A new bill was passed which delayed the tax cuts from July 1, 1947 to July 1, 1948. Truman vetoed this bill and the House overrode the veto, but the Senate sustained the veto by two votes.

JUNE 11, 1947 Effective at midnight, sugar rationing was discontinued and sugar controls were thereafter limited to an allocation system applying to industrial users, wholesalers, and retailers.

JUNE 30, 1947 Joseph D. Nunan, Jr. resigned as Commissioner.

JUNE 30, 1947 The Stabilization Act of 1942 expired. The Salary Stabilization Unit in the Bureau of Internal Revenue continued to process cases involving wages and salaries.

JUNE 1947 The Bureau of Internal Revenue initiated a work simplification program with a "pilot"





installation in the collector's office in St. Paul, Minnesota.

JULY 1, 1947 George J. Schoeneman of Rhode Island became Commissioner.

JULY 1, 1947 Title I of Public Law 147 (Treasury Department Appropriation Act of 1948) authorized and directed the Joint Committee on Internal Revenue Taxation to study enforcement of internal revenue laws to determine the number of deputy collectors, revenue agents, and other personnel needed to ensure the maximum net return from internal taxes.

AUGUST 14, 1947 Mimeograph 6176 extended the collectors' audit jurisdiction over individual 1040 returns to include all returns classified as worthy of field examination or office audit.

AUGUST 1947 The Special Committee on Administration issued its final report, adopting over 100 of the ideas or plans resulting from the October 1946 conference.

NOVEMBER 1, 1947 The Wage and Excise Tax Division was formed in collector's offices by combining the Miscellaneous and Employment Tax Divisions and the Withholding Tax Subdivision of the Income Tax Division, permitting the consolidation of some forms and records.

1947 The Bureau began a micro-filming program aimed at preserving permanent records as well as saving space and equipment.

1947 The Processing Branch moved to Kansas City.

FEBRUARY 20, 1948 A report by the House Committee on Appropriations made a number of recommendations for improving the operations of the Bureau of Internal Revenue. Consequently, the Secretary of the Treasury instructed the Commissioner to implement broad-scale management improvements.

MARCH 23, 1948 An organizational meeting of the Treasury Department Management Committee was held. This Committee was to act as a consulting organization for improving management throughout the Department.

APRIL 2, 1948 The Revenue Act of 1948 was passed over the President's veto. This act embodied a desire to equalize the tax burden of those who did and did not reside in community property states, giving married couples the option of filing joint returns and increasing the standard deduction for joint returns.

Overall, the law reduced individual and estate tax rates. This law also allowed an additional exemption for a taxpayer or spouse of a taxpayer age 65 and older or who was blind.

APRIL 22, 1948 The Commissioner established a management staff to improve management throughout the Bureau.







APRIL 1948 The Advisory Group to the Joint Committee on Internal Revenue Taxation released a report with a number of recommendations, including decentralization of routine work to field offices, establishment of a management staff in the Commissioner's Office, improvements in tax return forms, the use of modern sampling techniques to measure the adequacy of enforcement methods, and the employment of outside management specialists to study the organization and operations of the Bureau.

JUNE 14, 1948 Congress provided that the term "employee" in regard to Federal insurance contributions did not include any individual who had the status of an independent contractor or any individual who was not an employee under such rules.

JUNE 30, 1948 Congress amended section 3150(a) of the Internal Revenue Code providing that the tax imposed on beer and other fermented liquor was applicable also to beer, etc., imported into the United States.

JULY 2, 1948 The Secretary of the Treasury established a Committee to Direct the Management Studies of the Bureau of Internal Revenue to study the management problems of the Bureau and to recommend improvements. A.L.M. Wiggins was named chairman of this group, composed of leaders from both inside and outside the government.

SEPTEMBER 30, 1948 The management firm of Cresap, McCormick, and Paget was hired to make a comprehensive analysis of organization and procedures in collectors' offices around the country, with recommendations for improvement.

SEPTEMBER 1948 Officers in charge of field offices were authorized to approve most personnel actions for their offices, eliminating much paperwork in the central office of the Bureau in Washington, D.C.

OCTOBER 22, 1948 The membership of the Excess Profits Tax Council was increased from 15 to 25, including a five member executive committee vested with final authority over issues arising under section 722.

1948 Commissioner Nunan testified before the House Appropriations Committee that taxes brought in through the investigative and enforcement activities of the Bureau of Internal Revenue were being collected at the rate of \$20 for each \$1 spent. This 20:1 ratio was used to justify personnel increases, but this comparison ultimately resulted in acceptance of a quota system.

1948 The first step in using modern data processing equipment was taken when the Bureau of Internal Revenue introduced punch card equipment to process notices. The computation of income tax liability on Form W-2 returns was tested in the Cleveland collector's office.





1948 Taxpayer records and returns as well as excise tax returns were shifted from Washington, D.C. to collector's offices for management and retention.

1948 The Miscellaneous and Employment Tax Divisions and the Withholding Tax Subdivision in each collector's office were combined into the Wage and Excise Tax Division.

1948 The Paris Office of Internal Revenue reopened. World War II had closed all three overseas offices. Also, the Bureau of Internal Revenue conducted a survey of Americans living in foreign locations which revealed a low level of compliance due to lack of taxpayer assistance.

1948 The first formal long-range planning of organization, personnel, and budgeting began with a study made by the Advisory Group of the Joint Committee on Internal Taxation.

1948 The Bureau rewrote the booklet "Your Federal Income Tax," in nontechnical language and it became a bestseller. Instructions to taxpayers enclosed with income tax return forms were clarified so the taxpayer would know not only what to report but what was legally omisable or deductible.

1948 The Bureau introduced a new short form 1040A.

1948 Photocopying was introduced in many offices to reduce the typing workload and relieve the shortage of typists and stenographers.

1948 The Estate and Gift Tax Division was transferred from the Miscellaneous Tax Unit to the Income Tax Unit.

JANUARY 29, 1949 The Bureau received the final report of the management consulting firm Cresap, McCormick and Paget on its study of collectors' offices. The next month, the same management consulting firm was engaged to study the overall organization of the Bureau of Internal Revenue.

APRIL 1, 1949 The Bureau transferred the Estate Tax Division to the Income Tax Unit and changed its designation to Estate and Gift Tax Division.

APRIL 1949 The Bureau of Internal Revenue began a pilot program to exchange abstracts of audit information between collector's offices and state tax departments.

MAY 1949 The retention of personnel and retirement accounts and records was decentralized to eight field offices in the New York City area as an experiment to determine the feasibility and advisability of transferring this paperwork to the field. After a successful test period, the transfer of retirement record maintenance was decentralized to all field offices later this year.





AUGUST 23, 1949 Tax-stamp machines were introduced for the payment of taxes on fermented liquors.

AUGUST 1949 The management consulting firm Cresap, McCormick, and Paget submitted its report on the organization of the Bureau. The findings and recommendations of the report presaged many of the results of the 1952 reorganization. The consulting firm recommended the replacement of political appointees with career civil servants, the establishment of six regional offices (San Francisco, Atlanta, Kansas City, New York City, Dallas, and Chicago), and the creation of an executive development program. The separate field structure of audit and collection functions would remain intact. It would take the scandals of the early 1950s to bring action on many of these recommendations.

FALL 1949 The Processing Division in Kansas City began to insert and mail income tax forms and instructions for several collector's offices using mass production methods.

NOVEMBER 14, 1949 The Commissioner defined the authority and responsibilities of the two assistant commissioners. One was given supervision over the operating activities of the Bureau and one was given responsibility for the technical functions of the Bureau.

DECEMBER 16, 1949 Collectors were authorized to make refunds under \$10,000 rather than having requests for review and scheduling of refunds sent to Washington, D.C.

1949 The Bureau revised its procedures for preliminary review of individual tax returns so that returns for taxable years after 1947 were reviewed and classified in the field rather than in Washington, D.C. The preliminary review of other returns continued in the Income Tax unit in Washington, D.C.

1949 The use of key punch equipment was extended to seven additional collection districts from the original installation in Cleveland. From use only on 1040A returns in 1948, the experiments were extended to 1040 returns, 1040ES returns, and related documents.

1949 The National Tax Foundation estimated that the average American worked one hour and 16 minutes of each work day to pay his or her federal taxes—up from 40 minutes 10 years earlier.

1949 The Bureau initiated an audit control program to improve enforcement of the tax laws by sampling a selection of individual income tax returns for field investigation. Examination was made of 162,000 individual income tax returns for 1948 in an effort to determine how best to deploy the examining force of the Bureau and on what types of returns.





1949 Collectors were authorized to assert delinquency penalties for late filing on all types of returns as well as authority for handling all requests for certified copies of individual income tax returns and for the transcript service for the states with such returns.

1949 The Bureau began to experiment with electric typewriters, continuous forms, dual roller platens, and posting machines for processing individual income tax returns.





*The hallways of the National Office doubled as office space in the 1950s.*

*1950 - 1953*

INVESTIGATION AND TURMOIL:  
THE DEPOLITICIZATION OF TAX COLLECTION



Congressional investigations into alleged fraud on the part of Bureau of Internal Revenue employees reached a zenith during these years. By the conclusion of the investigations, several hundred Bureau employees had left the agency, either voluntarily or under indictment for offenses against the tax laws. The result was a sweeping reorganization plan developed by President Harry Truman which transformed the Bureau from an organization whose top positions were filled with political appointees to one in which only one position, that of the Commissioner, was a political appointee.





JANUARY-APRIL 1950 Electronic computers were used with punch card tabulating equipment for calculating tax liability on income tax returns during the filing season.

JANUARY 1, 1950 Federal Insurance Contributions Act (FICA) and income tax withholdings were combined in a single form (Form 941), and the depository receipt system was extended to FICA taxes. The depository receipt system was also revised to permit use of a new punch card receipt for deposits made directly with Federal Reserve banks or through authorized local banks.

FEBRUARY 6, 1950 Initial arrangements for the exchange of tax data were made with North Carolina and Wisconsin and were expanded to include Colorado, Kentucky, and Missouri over the next two years.

FEBRUARY 7, 1950 Congress amended the Federal Firearms Act to provide for the seizure, forfeiture, and disposition of any firearm or ammunition involved in any violation of the act or its regulations.

FEBRUARY 21, 1950 Congress amended the Internal Revenue Code to provide for the use of tax-stamp machines or other devices for paying the tax on domestic distilled spirits and alcohol and prescribed penalties for fraudulent acts relating to tax-stamp machines.

MARCH 16, 1950 Section 2301 of the Internal Revenue Code relating to the tax on oleomargarine and the occupational tax on manufacturers of oleomargarine was repealed.

APRIL 1, 1950 The administration of withholding income taxes from wages was transferred from the Income Tax Unit to the Employment Tax Unit.

AUGUST 28, 1950 The Social Security Amendments Act of 1950 amended the old-age and survivors insurance provisions of the Social Security Act by extending coverage to many persons not previously covered, including most self-employed except farmers, certain domestic workers in private homes, regularly employed agricultural workers, etc.

SEPTEMBER 1, 1950 Bulk gauging tanks were installed in Internal Revenue bonded warehouses, which saved considerable time for storekeeper-gaugers. Numerous procedures for simplified reporting of alcohol taxes were instituted.

SEPTEMBER 23, 1950 The Revenue Act of 1950 provided new, elaborate avoidance provisions dealing with tax-exempt organizations and charitable trusts and capital gains and losses. This act also raised individual and corporate tax rates and reduced wartime excise taxes.

SEPTEMBER 23, 1950 The Internal Security Act of 1950 provided that no deduction for federal income tax purposes and no exemption under section 101 of the Internal Revenue Code (non-profit organizations) would be allowed for any organization registered by the Subversive Activities Control Board as a Communist organization.





OCTOBER 30, 1950 The Bureau stopped preparing separate reports of concurrent examinations of income tax returns covering two years or more.

NOVEMBER 1950 The California Crime Commission charged the Bureau of Internal Revenue with failing to prosecute tax-dodging racketeers.

DECEMBER 13-20, 1950 The Joint Committee on Internal Revenue Taxation held executive session hearings in Washington, D.C. with top Bureau officials.

DECEMBER 27-28, 1950 The Joint Committee on Internal Revenue Taxation held executive session hearings in New York concerning the Office of the Collector of Internal Revenue for the third district of New York.

1950 The Bureau began an audit control program with the examination of a scientifically selected sample of 1948 individual income tax returns.

1950 The House Ways and Means Committee voted out a bill providing for withholding of tax at a rate of 10 percent on dividends. Ultimately, this bill did not pass.

1950 The Bureau tested a new system of numbering tax returns, using an alphabetical prefix to designate the classification of the returns in seven of its field offices.

1951-1952 A series of investigations by the Subcommittee on Administration of the Internal Rev-

enue Laws of the House Committee on Ways and Means erupted into a major corruption and embezzlement investigation which ultimately implicated 167 Internal Revenue employees and led to a major administrative reorganization in 1952.

JANUARY 2, 1951 The Bureau established an office of Budget and Finance responsible for budget operations and internal accounting work pursuant to the Budget and Accounting Procedures Act of 1950. The first three regional finance offices were established during the year in Boston, Philadelphia, and Richmond to provide better and more economical fiscal service.

JANUARY 3, 1951 Congress enacted the Excess Profits Tax Act of 1950 to raise revenue through taxing the excess profits of corporations and increasing the corporate tax rate by two percent. This was eliminated after the Korean War ended in 1953.

JANUARY 15, 1951 A Legislative and Operative Planning Task Committee began operating under the Income Tax Unit, with the primary responsibility of studying legislative problems affecting the administration of the revenue laws.

JANUARY 1951 The Bureau instituted an operational cost system in collectors' offices, providing data for businesslike cost control in collectors' offices, making it possible to staff offices on the basis of workload.





FEBRUARY 5, 1951 Senator John J. Williams of Delaware demanded the removal of Collector James W. Johnson of New York for inefficiency, citing the conviction of eight deputies in Johnson's office on bribery charges since 1946.

FEBRUARY 20, 1951 Deputy Collector W.D. Malloy of San Francisco was fired.

FEBRUARY 27, 1951 Commissioner Schoeneman testified that 50 to 60 employees were fired each year for taking bribes and announced the creation of a special fraud section in the Bureau.

FEBRUARY 28, 1951 Congress amended the Internal Revenue Code relating to the powers of the Joint Committee on Internal Revenue Taxation to obtain data directly from the Bureau of Internal Revenue, executive departments, and independent establishments.

MARCH 20, 1951 Two San Francisco employees were indicted (Ernest M. Schino and Patrick Mooney).

APRIL 4, 1951 The St. Louis Collector, James P. Finnegan, resigned from the first district of Missouri.

APRIL 12, 1951 The Civil Service Commission requested the dismissal of B.D. Murphy, Chief Deputy Collector of the Syracuse Office.

APRIL 27, 1951 The Special Tax Fraud Drive was created to investigate known racketeers for compliance with the Internal Revenue Code.

MAY 1951 The Subcommittee on Administration of Internal Revenue Laws began its investigation of the Bureau of Internal Revenue.

MAY 7, 1951 Delaware Senator Williams charged that the St. Louis grand jury investigating Collector Finnegan's office was not given all the facts.

JUNE 27, 1951 Collector Dennis W. Delaney of Boston was suspended.

JUNE 30, 1951 Deputy Collector Sidney Jacobs and Mrs. Ann B. McAdoo Serge of the New York collector's office were arrested.

JULY 1, 1951 New systems for appropriation accounting and administrative control over budget and expenditures were placed in effect in the offices of those collectors who handled their own accounting.

JULY 1, 1951 The Bureau of Internal Revenue adopted a uniform stock control system to provide better control of inventories and requisitions. Decentralized stationery procurement was implemented to simplify procurement.

JULY 2, 1951 Collector James W. Johnson of New York was fired.

JULY 16, 1951 Collector Delaney of Boston was fired.

JULY 19, 1951 President Truman authorized the establishment of an Inspection Service in the Bureau of Internal Revenue. The position of Director of the Inspection Service was also established.





JULY 31, 1951 George J. Schoeneman resigned as Commissioner citing health reasons.

AUGUST 1951 A joint investigation was begun by the Subcommittee on Administration of Internal Revenue Laws and the Bureau of Internal Revenue of the income tax returns and activities of various high ranking Bureau officials.

AUGUST 1, 1951 John B. Dunlap of Texas became Commissioner.

AUGUST 4, 1951 Assistant Commissioner Daniel A. Bolich cited health reasons for requesting a transfer.

AUGUST 8, 1951 James B.E. Olson, District Supervisor, Alcohol Tax Unit, District 2, New York and Puerto Rico, resigned.

AUGUST 17, 1951 Monroe D. Dowling succeeded James W. Johnson as Collector of Internal Revenue for the third district of New York.

AUGUST 29, 1951 Seven employees from the Wisconsin Office were suspended for violating the Hatch Act.

SEPTEMBER 10-12, 1951 James B.E. Olson testified in public hearings in New York that he was paid \$750 a month by American Lithofold, a St. Louis printing firm, while he was head of the New York Alcohol Tax Unit.

SEPTEMBER 14, 1951 Collector Delaney of Boston was indicted for accepting bribes.

SEPTEMBER 27, 1951 Collector James F. Smyth of San Francisco and eight others in his office were suspended.

SEPTEMBER 1951 A report on the management improvement efforts of the Bureau was completed.

OCTOBER 1, 1951 The Inspection Service of the Bureau of Internal Revenue was created to inspect field offices for efficiency and integrity.

OCTOBER 3, 1951 Secretary of the Treasury John W. Snyder agreed to let the House investigating committee circulate a questionnaire among Internal Revenue employees on their income. The Committee had made this request in July. Commissioner Dunlap ordered the examination of the income tax returns of all Bureau employees.

OCTOBER 4, 1951 Several revenue agents resigned rather than fill out the questionnaires. Senator Blair Moody of Michigan put forth charges of irregularities in the Detroit collector's office.

OCTOBER 5, 1951 Carroll E. Mealey, Deputy Commissioner in charge of the Alcohol Tax Unit, resigned citing health reasons. The House Committee widened its probe of Bureau activities to include St. Louis, Boston, New York, and Philadelphia.

OCTOBER 10, 1951 Treasury Secretary Snyder testified that he advised Finnegan to quit in August 1950. Senator Williams charged that the scandals will "reach right into Washington" and revealed that Schoene-





man had testified in the spring that there was nothing wrong in St. Louis or San Francisco.

OCTOBER 11, 1951 St. Louis Collector Finnegan was indicted on bribery charges.

OCTOBER 15, 1951 Dominic Vita of the Alcohol Tax Unit in Newark was suspended.

OCTOBER 19, 1951 The Bureau of Internal Revenue denied a slowdown in the handling of tax evasion cases. Congressmen ask why more tax evasion cases are not brought to trial.

OCTOBER 20, 1951 President Truman signed the Revenue Act of 1951, raising individual and corporate tax rates as well as many excise taxes. The act included a provision for additional withholding upon agreement between the employer and employee as well as numerous special tax benefits, including deduction of medical expenses for the elderly, mine exploration expenses, unharvested crops and depletion allowances for clam and oyster shells.

OCTOBER 21, 1951 Commissioner Dunlap called all field chiefs to Washington for a three-day conference. Nashville Collector Lipe Henslee was suspended for health reasons.

OCTOBER 23, 1951 Joseph P. Marcelle, Collector for the first district of New York, was fired.

OCTOBER 24, 1951 Two more New York agents were suspended.

OCTOBER 31, 1951 Lipe Henslee resigned as Collector of Internal Revenue for Tennessee.

OCTOBER 1951 In response to the widening scandals, two new requirements are announced for Internal Revenue employees. First, income tax returns of all officials and various enforcement personnel would be subjected to special examination and second, all high grade and enforcement personnel must submit financial statements.

NOVEMBER 1, 1951 Congress passed new wagering tax laws, providing a tax on organized gambling. These taxes were challenged as unconstitutional but were ultimately upheld.

NOVEMBER 1, 1951 President Truman announced that he would ask Congress to place all Collectors under the Civil Service system.

NOVEMBER 1, 1951 Increases in excise taxes on alcoholic beverages, cigarettes, gasoline, automobiles, and related products under the Revenue Act of 1951 went into effect.

NOVEMBER 2, 1951 Joseph Friedman, New York agent, was arrested. The House committee accused a U.S. attorney in San Francisco of refusing to cooperate with the investigation.

NOVEMBER 2, 1951 The Income Tax Unit was reorganized to reduce the number of organizational units from 13 to 5, eliminating 113 positions.







NOVEMBER 6, 1951 The House Committee announced the probe into Bureau management issues would be extended to North Carolina and Michigan.

NOVEMBER 7, 1951 The Treasury Department created a Special Board of Inquiry and Review to investigate the handling of tax fraud cases.

NOVEMBER 14, 1951 All tobacco tax functions were transferred from the Excise Tax Division to the Alcohol Tax Unit and the Unit's designation was changed to the Alcohol and Tobacco Tax Division (AT&T), consolidating field inspection and enforcement activities in one staff.

NOVEMBER 19, 1951 Assistant Commissioner Daniel A. Bolich resigned.

NOVEMBER 29, 1951 James G. Smyth was dismissed as Collector of Internal Revenue for the first district of California.

DECEMBER 5, 1951 Charles Oliphant resigned as Chief Counsel for the Bureau of Internal Revenue.

DECEMBER 7, 1951 The Treasury Department revised regulations relating to tax practitioners to require their periodic re-enrollment.

DECEMBER 7, 1951 The Technical Staff was renamed the Appellate Staff and the Technical Staff District became the Appellate Staff District.

DECEMBER 11, 1951 The procedure for consideration of criminal fraud cases was revised by eliminat-

ing the health of the taxpayer as a basis for refraining from recommending criminal prosecution for tax violations.

1951 Assistant to the Commissioner T.C. Atkeson told the House Appropriations Committee that "we should get away from the 20 to 1 ratio....," referring to the quota system.

1951 The Bureau initiated a procedure to provide an alphabetical prefix in the classification and numbering of income tax returns to provide for quick identification of the class of return and simplify numbering.

1951 Beginning this tax year, the Bureau used punch card tabulating machines to prepare a punch card bill form for "Estimated Income Tax Installment Due Notices," used for 39 percent of all such accounts.

1951 Authority for audit of Form 940 was decentralized to collectors, expediting the process by allowing collectors to deal directly with state unemployment compensation agencies.

1951 The Bureau installed a new method of processing monthly returns of manufacturers of tobacco products and annual accounts of dealers in leaf tobacco.

1951 The Bureau received authority from the Civil Service Commission to make probational appointments rather than temporary indefinite appointments to positions of internal revenue agent, special agent (tax fraud), and engineer special agent.





JANUARY 8, 1952 The Secretary of the Treasury announced revised procedures for handling criminal tax fraud cases, providing for the direct referral of such cases from the field to the Department of Justice.

JANUARY 10, 1952 The Secretary of the Treasury ordered abandonment of the former policy under which criminal prosecution was not recommended in cases where taxpayers made voluntary disclosures of intentional violation of internal revenue laws prior to initiation of investigation by the Bureau.

JANUARY 14, 1952 President Truman submitted Reorganization Plan #1 of 1952 to Congress, calling for a comprehensive reorganization of the Bureau of Internal Revenue. Key elements of the reorganization plan included replacement of the patronage system with a career service; improving the coordination process; decentralizing service to the taxpayers; restoring the integrity of and public confidence in the Bureau; creation of an independent Inspection Service.

JANUARY 30, 1952 The House approved Truman's Reorganization Plan and the Bureau established ten task forces to work out details of plans and procedures to implement the plan.

1952-1959 During this period the Chief Counsel was appointed by the Secretary of the Treasury.

FEBRUARY 12, 1952 Frank Scofield resigned as Collector of Internal Revenue for the first district of Texas.

MARCH 13, 1952 The Senate approved President Truman's Reorganization Plan #1 after voting down the last motion to defeat the plan.

MARCH 15, 1952 Reorganization Plan #1 took effect. The Plan organized the Bureau of Internal Revenue along functional lines; abandoned the system of political appointments to positions below the Commissioner; integrated most field revenue programs under district directors; established a system of regional administration under regional commissioners; consolidated inspection functions under the Inspection Service. This reorganization established the basis for a three-tiered structure of organization—the National Office; regional offices; and district offices.

MARCH 17, 1952 Monroe D. Dowling, Collector of Internal Revenue for the third district of New York, resigned.

MARCH 1952 For the first time, a manufactured flat package of tax forms and instructions was used for two states, Indiana and Massachusetts. This test demonstrated that higher manufacturing costs were offset by savings in labor costs.

APRIL 1952 A standard mail-opening system was installed in all collectors' offices, providing a more rapid and efficient handling of mail and remittances.

MAY 15, 1952 The Appellate Staff became the Appellate Division.





MAY 20, 1952 The Midwest Region was established as the Office of the District Commissioner of Internal Revenue, Chicago District, with jurisdiction over district headquarters in Chicago and Springfield.

MAY 20, 1952 A gradual reorganization of field offices began as provided by the Reorganization Plan No. 1 of 1952. Audit work formerly performed by collectors was transferred to the new audit division in each director's office.

JULY 1, 1952 The Office of the District Commissioner for New York was established.

JULY 11, 1952 Ernest E. Killen resigned as Collector of Internal Revenue for the district of Delaware.

AUGUST 4, 1952 An Internal Revenue Manual system, adapted to the new plan of organization, was established in a revisable looseleaf style to provide a single authoritative compilation of the policies and procedures having continuing effect on the administration and operation of the Bureau.

AUGUST 11, 1952 The complete reorganization of the National Office on a functional basis rather than on the former type-of-tax basis took effect. The reorganization of Internal Revenue abolished the Office of the Director of the Inspection Service and this position was given higher status by establishing the Office of the Assistant Commissioner (Inspection). A position of Administrative Assistant to the Commissioner was established reporting

directly to the Commissioner and positions of Assistant District Commissioner (Administration) were established in each district office.

OCTOBER 6, 1952 The Northeast Region was established as the Office of the District Commissioner of Internal Revenue, Boston District, comprised of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

OCTOBER 21, 1952 Wisconsin was added to the Chicago District.

OCTOBER 23, 1952 The Southeast Region was established as the Office of the District Commissioner of Internal Revenue, Atlanta District, comprised of Florida, Georgia, North Carolina, South Carolina, and the Panama Canal Zone.

NOVEMBER 12, 1952 The Mid-Atlantic Region was established as the Office of the District Commissioner of Internal Revenue, Philadelphia District, comprised of Delaware, New Jersey, and Pennsylvania, with jurisdiction over districts in Wilmington, Camden, Newark, Scranton, Philadelphia, and Pittsburgh.

NOVEMBER 18, 1952 John B. Dunlap resigned as Commissioner.

NOVEMBER 19, 1952 The Southwest Region was established as the Office of the District Commissioner of Internal Revenue, Dallas District, comprised of Texas and Oklahoma.





DECEMBER 1, 1952 By this date, 17 offices of Regional Commissioners had been established under the reorganization plan. A total of 25 such offices were planned. The established offices included Atlanta, Baltimore, Birmingham, Boston, Buffalo, Chicago, Cleveland, Dallas, Denver, Detroit, Los Angeles, Louisville, New York City, Philadelphia, St Louis, St Paul, and Seattle.

Under this reorganization, the Appeals function changed from a national organization to a regional organization. The major field programs, including alcohol and tobacco tax enforcement, were integrated under district directors. The appellate program and the permissive alcohol and tobacco tax functions were placed in the offices of regional commissioners. In the National Office all activities were placed under three assistant commissioners (inspection, operations, and technical); an assistant to the commissioner; and an administrative assistant to the commissioner.

1952 The Appellate Division received jurisdiction over federal estate taxes and employment taxes.

1952 The issuance of enrollment cards good for a period of five years for persons entitled to practice before the IRS began. Before this, cards were issued for unlimited duration.

1952 Forms 1040 and 1040A were revised to include a uniform exemption schedule designed to focus attention on dependency tests. Also during this filing season, a "package" mailing unit for distribution of the 1040 was tested and

approved for full implementation in the 1953 filing season. This involved combining the instructions and tax returns in book form and mailing the entire assembly in a flat package with an envelope.

1952 Albert Einstein made the statement, "The hardest thing in the world to understand is income taxes."

1952 There was a movement in Congress to require that the IRS make public all rulings issued to taxpayers. Instead, the IRS made a commitment to publish all communications to taxpayers and field offices involving substantive questions and procedures affecting the rights and duties of taxpayers in the Internal Revenue Bulletin.

JANUARY 9, 1953 The Office of the Director of Practice was established by order of the Secretary of the Treasury to assume functions relating to enrollment and disbarment of tax practitioners before the Treasury Department (excluding custom-house brokers), formerly performed by the Treasury Department's Committee on Practice and the Attorney for the Government. The Director of Practice was placed under the supervision of the Commissioner of Internal Revenue.

JANUARY 1953 A kit containing a teaching text, enlarged copies of tax return forms, and regular return forms, was mailed to 30,000 junior and senior high school principals and school superintendents in the beginning of what became known as the "Teaching Taxes" program.







FEBRUARY 4, 1953 T. Coleman Andrews of Virginia became Commissioner.

APRIL 10, 1953 The organizational structure of the National Office was revised and strengthened. A position for a Deputy Commissioner and a staff was established in the Office of the Commissioner.

The staff was comprised of five assistant commissioners—administration, planning, operations, technical, and inspection. The positions of Administrative Assistant to the Commissioner and Assistant to the Commissioner were abolished.

APRIL 1953 A new procedure was established for issuing and recording special occupational tax stamps, using an inexpensive printed stamp rather than more expensive engraved stamps formerly issued. The new stamps were issued beginning July 1, 1953.

MAY 1953 The Secretary of the Treasury approved plans to streamline the overall administrative setup in the regional offices, including a reduction in the number of regional offices from 17 to 9 and a change in title from District Commissioner of Internal Revenue and office of Director of Internal Revenue to Regional Commissioner of Internal Revenue and District Director of Internal Revenue respectively.

JUNE 12, 1953 The responsibility for processing claims to reward informers was transferred from the Audit Service Branch of the Audit Division in Washington to the district directors.

JUNE 1953 The Assistant Commissioner (Administration) met with all Assistant Regional Commissioners (Administration) to outline program objectives and standards of performance expected during the next year.

JULY 1, 1953 Treasury Department Order 150-26 formally enacted several organizational refinements, including reducing the number of regions from 25 to 9 and establishing the position of Deputy Commissioner.

New regional offices were established in Cincinnati, Omaha, and San Francisco while offices in Baltimore, Birmingham, Buffalo, Cleveland, Denver, Detroit, Los Angeles, Louisville, St Louis, St Paul, and Seattle were abolished. The others were designated as Regional Commissioners of Internal Revenue.

The Central Region was established as Office of the Regional Commissioner of Internal Revenue in Cincinnati, comprised of Indiana, Kentucky, Ohio, Virginia, and West Virginia with jurisdiction over district offices in Indianapolis, Louisville, Cincinnati, Cleveland, Columbus, Toledo, Richmond, and Parkersburg. The Western Region was established as the Office of the Regional Commissioner of Internal Revenue in San Francisco, comprised of Arizona, Utah, California, Nevada, Hawaii, Idaho, Montana, Oregon, Washington, and Arkansas.

The field operations of Alcohol and Tobacco Tax were centralized at the regional level while the delinquent accounts and returns program was transferred from the Audit Division in District Offices to the Collection Division.







JULY 1, 1953 Authority to reject offers in compromise was delegated to district directors. Also transferred to the district directors were many functions previously performed in the Collection and Audit Divisions of the National Office and the Office of the Chief Counsel.

JULY 7, 1953 Commissioner's Reorganization Order No. 17 officially redesignated the Bureau Headquarters as the National Office.

JULY 9, 1953 Treasury Department Order 150-29 officially changed the name from Bureau of Internal Revenue to Internal Revenue Service.

SEPTEMBER 30, 1953 This marked the end of the first quarter in which excise taxes were paid on Form 720, a quarterly return rather than the previous system of monthly returns.

SEPTEMBER 1953 The first classes were held in the Advanced Training Center established under contract with the School of Business Admin-

istration at the University of Michigan. The contract was awarded to the University of Michigan after soliciting proposals from institutions of higher learning.

NOVEMBER 1953 Inspection field offices were consolidated into 9 offices, each headed by a regional inspector.

DECEMBER 31, 1953 The excess profits tax enacted during the Korean War expired.

1953 The procedure of informing taxpayers by mail of the IRS position on proposed agreements developed into the two-part private letter ruling program.

1953 The Supreme Court upheld the wagering tax law, clarifying the obligation of those involved in gambling activities to purchase registration stamps and pay the 10 percent excise tax on gross amount wagered monthly.





*In an early version of today's busy taxpayer service telephone lines, IRS employees work directly with taxpayers to answer questions over the telephone.*

## 1954 - 1959

REBUILDING A REPUTATION:  
"SERVICE" BECOMES MORE THAN  
JUST A NAME



In the aftermath of the 1952 reorganization, the Bureau of Internal Revenue struggled to improve its public image. Focusing on the positive impact of service to the taxpayer, the Bureau began to rebuild its reputation. A new organizational structure replaced the network of Collector's Offices with District Offices operating under the intermediate supervision of Regional Offices. Another important change during this period was the new designation of the agency as the Internal Revenue Service.



JANUARY 1, 1954 The Federal Insurance Contribution Act rates rose from 1.5 to 2 percent on employees and employers.

MARCH 31, 1954 President Eisenhower signed the Excise Tax Reduction Act which cut rates in half on most items and retained surtaxes on automobiles, liquor, and tobacco.

JUNE 2, 1954 The Committee on Appeals and Review and the Special Committee were abolished.

JULY 30, 1954 Jury trials were authorized for cases involving refunds of taxes paid in dispute. All dollar restrictions on such cases were removed.

AUGUST 16, 1954 The new Internal Revenue Code of 1954 was enacted to encourage structural tax reform. This was the first complete revamping of tax laws since the enactment of the income tax in 1913 and was called the most monumental revision of tax law in history, making some 3,000 changes in income tax rules.

A new title under the Code of Federal Regulations was established and designated "Title 26—Internal Revenue, 1954," under which all of the regulations and Treasury Decisions pertaining to the 1954 Code appeared.

SEPTEMBER 1, 1954 The Social Security Amendments of 1954 required that the unemployment tax applied to employers of four or more persons, instead of eight or more as in prior years, extending the employment and self-employ-

ment taxes to several million additional taxpayers, beginning with the 1956 tax year.

DECEMBER 6, 1954 The Supreme Court handed down four decisions which set forth the Court's conclusions that the "net worth theory" was a valid investigative technique in pursuing criminal tax evasion, thereby endorsing a technique used by special agents for many years.

1954 Child care expenses became deductible for widows, single parents, and certain other taxpayers.

1954 In Revenue Ruling 54-172, the IRS issued the first published guidance concerning the private letter ruling process.

1954 A standardized badge was adopted for all IRS special agents.

JANUARY 1955 The shift from a stamp to a return basis for the payment of beer and wine taxes began with the introduction of Form 2034 for beer and Form 2050 for wine this month.

APRIL 15, 1955 This was the first year that individual income tax returns could be filed on this date instead of the traditional date of March 15 which was retained for corporation and all income tax returns other than individual returns.

JUNE 30, 1955 A Memorandum of Agreement was signed between the Secretary of the Treasury and the Attorney General for carrying out the provisions of Public Law 725





which provided for investigation by the FBI of certain criminal cases.

AUGUST 22, 1955 A Foreign Operations District was established with its headquarters in Washington, D.C. as a division of the Internal Revenue District in Baltimore.

OCTOBER 4, 1955 Two service centers were established through an Internal Revenue Mimeograph (#55-116) this date, including the Kansas City (Midwest) and Lawrence (Northeast) Service Centers. The Kansas City Service Center was the first service center to be opened on a pilot basis.

OCTOBER 31, 1955 T. Coleman Andrews resigned as Commissioner.

DECEMBER 5, 1955 Russell C. Harrington of Rhode Island became Commissioner.

DECEMBER 15, 1955 Renovation to space for the Northeast Service Center in Lawrence, Massachusetts, was completed and the building was occupied on this date.

1955 The IRS purchased an electronic computer to be operated jointly with the Bureau of the Census. This was used to compile the Statistics of Income publication.

1955 Since automated equipment required a large-scale operation, testing of the centralization of returns processing using tabulating equipment and IBM 650 computers to process all 1040A tax returns received in the Omaha Region began this year in the processing

branch at the Midwest Service Center. This marked the first time any major processing operation was attempted on a region-wide basis. In fiscal year 1955, 1.1 million 1040As from the 10 districts of the Omaha Region were processed in this manner.

1955 The Office of International Operations (OIO) was established under the Assistant Commissioner for Compliance. Responsibility for tax administration in all areas of the world except the continental United States, Alaska, and Hawaii was centralized in this new function. Previously, these responsibilities were divided among all district and regional offices as well as the National Office.

1955 The Bloch brothers—Henry and Richard—set up a company in Kansas City, Missouri, to help people prepare their tax returns.

FEBRUARY 7, 1956 The Treasury Department published its interpretation of its rules of practice set forth in Circular 230 in the Federal Register.

MARCH 19, 1956 The inspection function assumed responsibility for conducting Federal Tort Claim investigations in cases requiring formal investigations. This function was previously performed by the Alcohol and Tobacco Tax Division.

MAY 1, 1956 The Foreign Operations Division was transferred to the Assistant Commissioner for Operations in the National Office from the Baltimore District.





JUNE 25, 1956 The first tax treaty with a Latin American country was signed on this date with Honduras.

JUNE 1956 The first 11 participants in the Executive Development Program graduated from the six-month training program and were placed in assistant district director or equivalent executive positions.

JULY 1, 1956 A new tobacco tax return, required to be filed monthly by manufacturers and importers of cigars, became effective.

JULY 1956 Congress passed the Social Security Act Amendments of 1956. This act increased the rate of tax on self-employment income by  $\frac{1}{2}$  of 1 percent and the rates of the employee tax and the employer tax were each increased by  $\frac{1}{4}$  of 1 percent. These changes resulted in a large increase in the total number of returns filed during the year. The extension of FICA coverage to more workers, particularly farm laborers, was responsible for most of the rise.

AUGUST 1, 1956 The Panama Canal Zone was removed from the Internal Revenue District, Jacksonville and Puerto Rico and the Virgin Islands were removed from Internal Revenue District, Lower Manhattan, and placed under the International Operations Division.

SEPTEMBER 1956 The Western Service Center in Ogden, Utah was activated at the U.S. Army's Utah General Depot.

1956 The Kansas City Service Center was reorganized as the Midwest Service Center and the Lawrence, Massachusetts facility was designated as the Northeast Service Center.

1956 A new excise tax, the highway use tax on trucks and buses, was levied as part of the huge federal highway construction program authorized by Congress this year.

1956 Provisions for a comprehensive long-range operational and financial planning system were established in the IRS.

1956 The IRS launched the Blue Ribbon Program—a major effort to improve the caliber and productivity of its work force. This was basically a college recruitment and training program.

1956 Several forms were revised during the year, including the elimination of payments and refunds of less than one dollar on the 1040 and reduction of Form 1120, U.S. Corporation Income Tax Return, from legal to letterhead size. Form 1040A allowed the taxpayer to have the IRS compute his or her tax.

1956 The IRS published a 64-page booklet entitled "Farmers' Tax Guide," for the first time this year. This booklet was prepared in collaboration with the U.S. Department of Agriculture Extension Service. One million booklets were distributed to farmers during the year.







1956 Corporate taxes were payable in two equal installments for the first time for tax year 1955. Until 1950 corporate taxes were paid in four equal installments when the portion of taxes paid in the first two installments was gradually increased until all taxes were paid in two installments.

JANUARY 1, 1957 The first income tax treaty between the United States and a Latin American country took effect between the United States and Honduras.

JANUARY 2, 1957 Accounting for tax payments received through banks under the depository receipt system was improved as a result of a new system under which the Bureau of Accounts of the Treasury Department performed centralized accounting for these payments instead of through the 64 district offices performing this work.

1957 The IRS entered into a cooperative agreement with Minnesota for the exchange of tax data. This agreement differed from a 1950 pilot and was designed to create a truly operative federal-state cooperative program. Other state agreements were made as follows: California (1961); Colorado (1951); Indiana (1961); Iowa (1962); Kansas (1960); Kentucky (1961); Maryland (1963); Minnesota (1957); Missouri (1962); Montana (1960); North Carolina (1960); Ohio (1961); Oregon (1961); Utah (1961); West Virginia (1962); Wisconsin (1958).

1957 The IRS initiated the Major Violator Program to concentrate

investigative work on major violators of liquor tax laws.

1957 The House Ways and Means Committee launched a review of the accomplishments of the 1952 reorganization of the IRS.

1957 The Tax Rate Extension Act of 1957 extended existing corporate income tax rates and the rates of certain excise taxes which otherwise would have been reduced on April 1, 1957 to July 1, 1958.

1957 The training function was separated from the personnel function and established as a separate division in the National Office.

1957 Several organizational changes in the National Office occurred this year. The position of Assistant Commissioner (Administration) was changed to Administrative Assistant to the Commissioner and made a part of the Commissioner's personal staff. The position of Assistant Commissioner (Planning) was changed to Assistant to the Commissioner and transferred to the Commissioner's staff with additional duties in the management planning and reporting field. Finally, the Fiscal Management Division was separated from other administrative offices so that it reported directly to the Commissioner.

FEBRUARY 11, 1958 Congress required taxpayers to make special deposits of trust fund monies from withheld income and social security taxes, and excise taxes on facilities and services, providing the IRS with more authority in combating tax





delinquencies. In essence, this law required separate accounting for certain taxes when the person who collected them failed to pay the taxes over to the government.

MAY 19, 1958 The Office of Planning and Research, headed by an Assistant Commissioner, was created to bring together the previously fragmented areas of research, planning, and policy formulation. The new office included the Plans and Policy Division, the Research Division, the Systems Development Division, and the Statistics Division.

JUNE 30, 1958 The Tax Rate Extension Act of 1958 took effect, extending until July 1, 1959, the present corporation income tax rate and the rates of certain excise taxes and repealing taxes on the transportation of property.

JULY 7, 1958 The Government Employees Training Act opened new avenues for strengthening training programs in the government.

AUGUST 28, 1958 Congress enacted the Social Security Amendments of 1958, increasing the rates of self-employment income tax and the FICA tax on employees and employers beginning January 1, 1959. The income tax base for these taxes was raised from \$4,200 to \$4,800.

SEPTEMBER 2, 1958 The Technical Amendments Act of 1958 was enacted, requiring U.S. citizens residing in foreign countries to file U.S. tax returns and report all income, even though no tax was due.

Also, the law eliminated many unintended benefits and hardships in existing income, estate, and gift tax provisions of the internal revenue code. This act authorized the Commissioner to send deficiency notices by either certified or registered mail. Previously, such notices could only be sent via registered mail.

SEPTEMBER 22, 1958 Congress enacted the Excise Tax Technical Changes Act of 1958. This act incorporated IRS recommendations for modernizing the distilled spirits provisions of the code and other revisions of wine, beer, and tobacco statutes.

SEPTEMBER 30, 1958 Russell C. Harrington resigned as Commissioner.

OCTOBER 1958 Payroll processing for the entire IRS workforce was automated and consolidated in the Western Service Center in Ogden, Utah.

NOVEMBER 5, 1958 Dana Latham of California became Commissioner.

DECEMBER 1, 1958 For the first time, all major tax forms were available in IRS offices by this date.

DECEMBER 1958 The IRS released the first issue of "Tax Analysis of Individual Income Tax Returns."

DECEMBER 1958 The Planning and Research Staff prepared a "Summary of Operational Plans for Electronic Data Processing" for the development of a data processing system for





the IRS. The plan consisted of a tax processing system installed on computers and a series of service centers, a permanent identification number for each taxpayer, and a centrally located and maintained master file to serve as a computerized data base.

1958 A Technical Amendments Act added the subchapter S rules to permit income to be taxed at the shareholder rate rather than at the corporate rate.

1958 The title "Collection Officer" was changed to "Revenue Officer" to identify these positions more closely with the IRS and to show that the primary concern of these positions was with the revenue.

1958 A program for preappointment investigations of trainees selected for revenue agent and revenue officer positions began in an effort to eliminate unsuitable candidates prior to appointment.

1958 The Pittsburgh and Phoenix Districts developed and tested a new organizational alignment of the collection division, which included a Taxpayer Service Branch, concentrating all taxpayer inquiries relevant to collection functions in one central area for the first time. Eventually, this arrangement was implemented in all district offices.

1958 A Work Planning and Control System installed in the collection divisions of all district offices to provide for control over the processing phase of the collection activity.

1958 The IRS held its first formal classroom training for estate and gift tax examiners.

1958 An IBM 650 computer was installed at the Northeast Service Center.

1958 The Columbia and Jacksonville District offices moved into new buildings, designed specifically for their use, while the Camden District moved into new quarters as well.

1958 The IRS ruled that taxpayers with expense accounts had to itemize unreimbursed expenses on the returns, providing the first big push to use credit cards in the United States.

To avoid tedious record-keeping, many corporations provided credit cards for their executives. Ninety days after the ruling, Diners Club reported 60,000 new members—the biggest membership surge in its history.

1958 The Personnel Division of the National Office established an Employee Relations Branch.

MARCH 15, 1959 Revised Treasury Department rules governing the practice of attorneys, agents, and other persons before the IRS took effect. The revised rules permitted unenrolled persons to represent taxpayers in district directors' offices on returns prepared by them for the taxpayer and permitted special enrollment through a simplified examination procedure of experienced persons not eligible under general enrollment rules.





MARCH 16, 1959 The House of Representatives passed a bill to encourage the establishment of voluntary pension plans by self-employed individuals.

MARCH 1959 The Secretary of the Treasury and Congress approved IRS plans to proceed with the installation of a nationwide automatic data processing system.

MAY 1959 Changes in the organizational structure of district audit divisions were authorized to provide greater flexibility, a more effective span of control, and better use of supervisory and technical personnel.

MAY 1959 The Atlanta Region was selected as the test region for the automated data processing program.

JUNE 17, 1959 The Advisory Group to the Commissioner of Internal Revenue was established. This 12-member committee represented professional and other private groups concerned with federal taxation and was to serve as a clearinghouse for suggestions from practitioners and the public for improvements in tax administration.

JUNE 24, 1959 The IRS instituted a semi-monthly return system for the payment of federal taxes on alcohol and tobacco products, eliminating the use of stamps for this purpose. The abolition of the historic stamp system (in use since 1868) marked a significant change in the method of collecting these taxes. This year had marked a peak in revenue stamp use with 20 billion stamps used on cigarette packages.

JUNE 24 & 25, 1959 Approximately 2,100 applicants took a special exam to become enrolled agents under new rules established in March 1959.

JUNE 25, 1959 Congress passed a law providing a new set of rules and a permanent formula for taxation of life insurance companies.

JUNE 30, 1959 Congress enacted the Tax Rate Extension Act of 1959, extending the corporate income tax rate and some excise taxes to July 1, 1960 and reducing the tax on transportation of persons from 10 percent to 5 percent, effective July 1, 1960 and terminated the tax on general telephone service effective July 1, 1960.

SEPTEMBER 21, 1959 Congress passed the Federal Aid Highway Act of 1959, imposing an additional one-cent tax on gasoline, diesel fuel, and special motor fuels for a 21 month period, beginning October 1, 1959.

SEPTEMBER 22, 1959 Congress amended the Internal Revenue Code to provide for appointment of the Chief Counsel by the President, restoring this position to its pre-1952 status.

NOVEMBER 12, 1959 A management study report by a task group appointed by the Assistant Commissioner (Operations) recommended creating an organization to implement the automated data processing plan in three phases (transitional, intermediate, ultimate).





NOVEMBER 24, 1959 The Assistant Commissioner (Operations) announced that Phase I of the automated data processing plan would proceed.

1959 The IRS prepared a Long-Range Plan for the first time this year to provide an overall view of the Service's long-term program objectives and resource requirements.

1959 The IRS designed a emblem to be given to retirees with at least 10 years of IRS employment.

1959 The IRS initiated studies of large-scale electronic data processing equipment to determine availability of types having potential application to IRS procedures and to determine the feasibility of adapting and modifying existing operations to use such equipment.

1959 Publications distribution activities of the National Office were moved from the basement of the headquarters to a suburban warehouse, reducing the average length of time to fill requisitions from three weeks to one week.

1959 The IRS established a safety award program in the service centers to encourage accident prevention through a competition between the three service centers.

1959 A new office building for the Baltimore District was completed.

1959 A public service documentary film was produced and distributed for booking through IRS field offices. "Since the Beginning of Time" was selected for showing at

the International Film Festival in Edinburgh, Scotland and was selected by television stations in the U.S. as one of the 50 best films in the news and documentary categories.

1959 Form 1120S, U.S. Small Business Corporation Return, was issued to implement subchapter S of Chapter I of the Code as added by the Technical Amendments Act of 1958.

1959 The 1040A was revised to permit use by individuals with incomes up to \$10,000. The previous limit had been \$5,000.

1959 The IRS created a separate taxpayer service function within the Collection operation to handle taxpayer inquiries—to increase effectiveness and better serve the public. Up to this time, the IRS had used revenue agents and revenue officers for this purpose.

1959 The IRS began a Coordinated Evaluation Program to determine how effectively regional offices were carrying out their responsibilities and to determine how the National Office could be of more assistance.

1959 A voluntary Servicewide Health Maintenance Program was inaugurated this year with the goals of protecting the health and well-being of employees, improving employee morale, and increasing work accomplishments.

1959 The IRS published a policy statement stating its position in regard to quality and production of work in an effort to eliminate refer-







ences to quotas and to emphasize quality standards.

1959 The National Office Intelligence Division was expanded from two to four branches and the Intelligence function in New York City was decentralized from the regional to the district level to achieve uniformity of organization nationally.

1959 IBM 650 Computers were installed at the Kansas City and Ogden Service Centers.

1959 The success of the East Coast Plan and the Major Violator Program spawned the establishment of the "Junior East Coast Program," to be used against violators who did not come within the category covered by the parent program.

1959 The IRS created the 1040W form—"U.S. Individual Income Tax Return-Optional Short Form for Wages and Salary Income and Not More Than \$200 of Interest and Dividends," designed for use by taxpayers who did not require the more detailed 1040 form.

1959 The IRS created Form 2688, "Application for Extension of Time to File U.S. Income Tax Return."

1959 The IRS began to provide television announcements throughout the entire year as well as during the filing period.

1959 The National Tax Foundation estimated that the average American worked one hour and 36 minutes each day to pay his or her federal income taxes—up from one hour and 16 minutes 10 years earlier.

1959-1963 The "Untouchables" television series aired 118 episodes during this period.





*Row upon row of tax processing employees worked in large warehouse environments to process the growing number of tax returns.*

*1960 - 1964*

COMPUTERIZATION AND INTERNATIONAL AID:  
THE IRS GEARS UP TO SUPPORT THE GLOBAL  
REACH OF THE UNITED STATES



The vast increase in the number of tax returns filed during the years following the expansion of the income tax base in World War II required the IRS to develop innovative processing methods. The IRS found itself at the forefront of the automated data processing revolution as it established a series of “service centers” around the country with the primary job of processing tax returns. The expanding global responsibilities of the United States also prompted the IRS to assist many third world nations in establishing their own internal tax collection systems during these years.



1960s The IRS began to track error statistics to look at ways to prevent common errors made by taxpayers.

JANUARY 1, 1960 The IRS consolidated several district offices to improve operating efficiency. The Upper Manhattan and Lower Manhattan Districts in New York City were combined to form the Manhattan District. The four Ohio districts were merged into two—Toledo into the Cleveland District and Columbus into the Cincinnati District.

JANUARY 1, 1960 Organizational changes in the National Office included realignment of the Audit Division into six branches instead of three; assignment of responsibility for implementing and operating the automated data processing system of IRS to the Collection Division; and reorganization of the Intelligence Division into four branches instead of two.

JANUARY 8, 1960 Detailed specifications developed by the Planning and Research Staff, the Collection Division, and the management consulting firm of McKinsey and Company for the automated data processing system were sent to 42 manufacturers.

JANUARY 11, 1960 An Executive Council was formed to coordinate and approve activities of the automated data processing plan. The Council included Robert Jack, Bertrand Harding, William Smith, Robert Hall, and Bruce Rohrbacker.

FEBRUARY 11, 1960 IRS executives recommended that the proposed centralized computer center be located within easy commuting distance of Washington, D.C.

FEBRUARY 26, 1960 Announcements for openings in automated data processing positions were circulated throughout the IRS.

FEBRUARY 26, 1960 The former Engineering and Valuation Branch of the Assistant Commissioner (Technical) was abolished. In its place three engineering branches—Natural Resources, Appraisal, and Court Defense—were established.

MARCH 29, 1960 A comprehensive study of personnel problems experienced by other organizations facing change on the scale of automated data processing implementation in the IRS was undertaken jointly by the Collection and Personnel Divisions.

SPRING, 1960 An initial cadre of employees were recruited and trained as systems analysts for the automated data processing system.

APRIL 14, 1960 The IRS recommended locating the computer center outside the 20-mile national security limit established by Defense Mobilization Order 1-19.

APRIL 1960 The IRS received proposals for the automated data processing system from six companies.





MAY 1960 The IRS created a Reports Division to develop and coordinate the policies, procedures, and standards for a Servicewide Reports Program.

JUNE 28, 1960 The IRS proposed a location in the eastern panhandle of West Virginia for the computer center.

JUNE 30, 1960 Congress passed the Public Debt and Tax Rate Extension Act of 1960 which postponed reductions in tax rates on corporate incomes, termination of the excise tax on telephone service, and other excise tax rates until July 1, 1961.

JULY 1, 1960 Robert H. Terry was named director of the yet to be located service center for the Atlanta Region.

JULY 20, 1960 The IRS announced the contract award to IBM for model 1404 computers to be installed in the new service centers and IBM 7070s for the National Computer Center for the automated data processing system.

JULY 20, 1960 The IRS announced the selection of Martinsburg, West Virginia, as the site for the Computer Center.

AUGUST 1, 1960 Programmer training classes began at the IBM Washington Training Center.

AUGUST 1960 The International Operations Division was redesigned the Office of International Operations.

SEPTEMBER 1, 1960 The Office of the Chief Counsel underwent its first major organizational change since 1952 by streamlining and consolidating litigation and technical functions under two Associate Chief Counsels.

SEPTEMBER 8, 1960 The President vetoed a tax bill that would have allowed filing a tax refund claim after the statute of limitations had expired.

SEPTEMBER 13, 1960 Congress passed the Social Security Amendments of 1960 which extended and improved coverage and raised the tax rate on employers from 3 to 3.1 percent.

SEPTEMBER 1960 Administrative activities in the National Office were regrouped and placed at the Assistant Commissioner level and a new Assistant Commissioner (Administration) was created.

SEPTEMBER 1960 Programmer classes began in Washington, D.C. in the "Digital Computer Systems Programmer Course."

OCTOBER 10, 1960 Authority to approve trade names to be used under the Federal Alcohol Administration Act was delegated from the National Office to the Assistant Regional Commissioner, Alcohol and Tobacco Tax.

OCTOBER 1960 The IRS held an executive seminar with 23 top officials to orient management to the role and capabilities of the new automated data processing system.





NOVEMBER 15, 1960 Atlanta was selected as the site of the new automated data processing service center.

DECEMBER 19, 1960 The IRS initiated the "Poison Moonshine Publicity Program" to warn the public of health hazards associated with the consumption of illegally manufactured alcohol.

DECEMBER 29, 1960 The IRS announced initiation of Phase II of the automated data processing plan and establishment of the new Automated Data Processing Division in the National Office.

1960 A major study of the taxpayer service function was undertaken which showed that errors could be avoided through outreach efforts. This resulted in the issuance of the "Mr. Businessman" kit and the addition of joint seminars with the Small Business Administration.

1960 The Trust and Partnership Income Tax Revision Act of 1960 became law.

1960 A budget committee appointed early in the year reviewed the financial management system of the IRS and made recommendations for change, including improving controls and formalizing financial management policies and procedures.

1960 Payroll systems at the Northeast and Western Service Centers were converted to IBM 650 electronic data processing machines.

1960 The IRS produced its second documentary film, "The Inevitable Day," as well as a short documentary film of President Kennedy's visit to the National Office for internal use.

1960 The first tax model was developed using individual income tax returns from this year. This consisted of a sample of tax return data recorded on magnetic tape that could be readily manipulated by computer to yield estimates of the revenue impact of various changes in the tax laws.

JANUARY 6, 1961 The Anchorage District was established.

JANUARY 18, 1961 The Chief Counsel established branches for all National Office divisions.

JANUARY 20, 1961 Dana Latham resigned as Commissioner.

JANUARY 22, 1961 The Collection Division reorganized into two new divisions—the Collection Division and the Automated Data Processing Division. The ADP Division was given responsibility for implementation of the data processing system, returns processing, revenue accounting, and service center operations. Robert L. Jack was selected as the first Director of the ADP Division.

FEBRUARY 7, 1961 Mortimer M. Caplin of Virginia became Commissioner.

MARCH 13, 1961 President Kennedy proposed his Alliance for Progress, a ten-year cooperative effort of hemispheric development for Latin Ameri-







ca. This program involved land, tax, and other reforms.

**MARCH 30, 1961** The IRS published ADP Redeployment Guideline Number 1 with information on personnel policies in regard to individuals expected to be displaced through implementation of the new ADP system.

**APRIL 3, 1961** The Operating Facilities Division was reorganized and became the Facilities Management Division.

**APRIL 5, 1961** Sealed bids for construction of the National Computer Center were opened. Scott S. Bair, an investment broker of Westminster, Maryland, received the contract to construct and lease to the government a \$750,000 facility on five acres formerly part of the Veterans Administration hospital grounds.

**APRIL 20, 1961** President Kennedy, in his tax message to the Congress, recommended enactment of a tax program aimed at stimulating economic recovery, removing tax advantages for American overseas investments, and removing defects in the income tax structure.

**MAY 31, 1961** The IRS announced selection of the Philadelphia area as the site of a new service center.

**MAY 2, 1961** Internal management instructions were issued to establish a Major Violator Program in each region, after a successful beginning in the Southeast Region. The program involved identification and listing of major violators of alcohol and

tobacco taxes in each area and the concentration of investigative effort toward their apprehension.

**MAY 1961** The IRS offered a new course in "ADP Installation Management" for the first time.

**JUNE 1, 1961** Ground was broken for the National Computer Center in Martinsburg, West Virginia. The building was completed in record time, with full occupancy on November 1, 1961.

**JUNE 30, 1961** Congress passed the Social Security Amendments of 1961 which increased the self-employment tax rates and the Federal Insurance Contributions Act tax rates.

**JULY 14, 1961** ADP Redeployment Guideline Number 2—Position Classification was published and the Civil Service Commission authorized special personnel procedures to facilitate conversion to automatic data processing.

**JULY 7, 1961** John E. Stewart, Chief of the Programming Branch in the ADP Division, was appointed the first Director of the National Computer Center. He served ten years in this position, until 1971.

**JULY 1961** The Assistant Regional Commissioner (Administration) was detailed through the Agency for International Development to participate in the U.S. Operations Mission to Chile to set up a tax administration school in Santiago.





JULY 1961 The National Office Administrative Intern Program began under a training agreement with the Civil Service Commission.

AUGUST 1961 The position of Assistant Regional Commissioner (Data Processing) was created in the Atlanta Region. Wayne S. Kegerreis was selected for this new position.

AUGUST 1961 Ground was broken for the new Atlanta Service Center. Computer equipment was delivered to the temporary site. Pending completion of the new facility, the Atlanta Service Center was established in a former furniture warehouse as a pilot center to test the new data processing system. Operations were also conducted out of the old Georgia Power Company building until 1962.

AUGUST 1961 The Commissioner appointed a Special Training Advisory Committee to survey the collection training program and develop a comprehensive career training plan.

SEPTEMBER 1, 1961 The computer room of the National Computer Center was completed in time for the delivery of the IBM computer equipment on September 5.

SEPTEMBER 13, 1961 Congress enacted a provision to prohibit travel or transportation in commerce in aid of racketeer enterprises, including businesses involving liquor on which the federal excise tax has not been paid. Authority over investigations of violations of the act involving liquor was delegated to the IRS.

SEPTEMBER 15, 1961 The Assistant Commissioner (Operations) was redesignated the Assistant Commissioner (Compliance).

SEPTEMBER 19, 1961 Less than a year after its establishment as a separate division, the Automatic Data Processing Division became the Office of Assistant Commissioner (Data Processing).

SEPTEMBER 27, 1961 Robert Jack was named the Assistant Commissioner (Data Processing).

SEPTEMBER 1961 The National Computer Center completed thirteen reels of tape, comprising the first phase of the business master file, and forwarded them to the Atlanta Service Center.

OCTOBER 1961 Commissioner Caplin and Deputy Commissioner Harding attended the Inter-American Conference on Tax Administration in Buenos Aires, Argentina.

OCTOBER 23, 1961 A nationwide IRS conference was called to discuss the effects of automated data processing on the federal tax system and taxpayers. More than 600 business leaders attended.

NOVEMBER 6, 1961 The National Computer Center in Martinsburg, West Virginia, officially opened with a dedication ceremony on this day.

NOVEMBER 1961 The "ADP News" publication made its debut.





DECEMBER 20, 1961 The Fiscal Management Division was transferred from the Office of the Commissioner to the Office of the Assistant Commissioner (Administration).

DECEMBER 1961 A training task force concluded that the training demands of the 1960s could be met by establishing national and regional training centers.

1961 Congress passed a law requiring taxpayers to use their social security number as a Taxpayer Identification Number (TIN) and requiring business taxpayers to use a number assigned by the IRS.

1961 The IRS began an experimental summer employment program for college students to encourage them to seek employment with the Service upon graduation.

1961 Deputy Commissioner Bertrand M. Harding was selected by the National Civil Service League as one of the top ten federal employees in the country. He was the first IRS employee to receive this honor.

1961 Group supervisors were prohibited from keeping quota system data on employees.

1961 President Kennedy proposed 20 percent withholding on interest and dividend payments. This proposal passed the House in 1962 but the Senate substituted expanded information reporting on interest and dividends for withholding. This led to the use of Taxpayer Identification Numbers

(TIN) and a \$10 penalty for failure to provide the correct number.

1961 A drive to ferret out corruption in the IRS was initiated by the Inspection function as a result of continuing complaints and rumors that some IRS employees, tax practitioners, and others were defrauding the IRS.

1961 The Northeast Service Center processed 1,960 individual income tax returns on its new magnetic tape computers and submitted refund data on magnetic tape to the Chicago Regional Disbursing Office.

1961 The Office of Chief Counsel reorganized, resulting in the division of operations into two principal functions: litigation and technical.

1961 Commissioner Caplin launched the "New Direction" of tax administration with three main objectives: 1) better service to taxpayers, 2) vigorous but reasonable enforcement, and 3) curbing of abuses. The underlying purpose of this new program was to reaffirm public confidence in the tax system.

1961 The Administrative Intern program began. Each year 20-25 individuals were selected to participate in this year-long training program.

1961 The government's Organized Crime Drive began, resulting in identification of many major racketeers as subjects for IRS investigation.





JANUARY 1, 1962 The Philadelphia Regional Service Center was established. Hereafter, service centers dealing with automated data processing systems were known as regional service centers and all others were known as area service centers, including Midwest, Northeast, and Western.

JANUARY 1962 The IRS received special requests from the governments of Peru and Chile for assistance with their computer systems. In response, the IRS sent a systems analyst to these countries. Also this month, three representatives from the Brazilian Finance Ministry came to the U.S. to participate in IRS revenue agent training.

JANUARY 1962 Automated data processing was officially put into operation in the IRS as the truly revolutionary stage of mechanical processing was reached with the introduction of high speed electronic computers capable of handling up to 680,000 characters per second.

It was during this month that the processing of business returns in the Atlanta Service Center and National Computer Center began. Starting with 5,000 Forms 940, "live" data was converted to tape by the Atlanta Service Center and forwarded to the National Computer Center. The Computer Center posted the data to the new master file and returned it to Atlanta on February 6.

FEBRUARY 16, 1962 The IRS announced several personnel decisions for the new Assistant Commissioner (Data Processing) organization: Garrett DeMotts was the Executive Assistant; Clinton Walsh was

the Director, Operations Division; Lawrence Doss was the Assistant Director, Operations Division; Monroe H.O. Berg was the Director, Systems Division; and Donald Elsberry was the Assistant Director, Systems Division.

FEBRUARY 1962 The first master file, the Business Master File, was established at the National Computer Center with 505,000 accounts from the Atlanta Service Center.

EARLY 1962 The IRS began reorganizing and expanding the role of its public information program to keep taxpayers informed of their rights and duties and to build respect for the self-assessment system.

MARCH 1, 1962 A committee was established to study the industrial alcohol and liquor tax laws in an effort to encourage simplification in revenue control and tax determination.

APRIL 2, 1962 The IRS announced selection of the Philadelphia Industrial Park in the northeast section of Philadelphia as the permanent site of the service center.

MAY 1, 1962 The Foreign Tax Assistance Staff was established while the International Tax Relations Division was abolished.

JUNE 1, 1962 A building designed and constructed for the Atlanta regional service center at Chamblee, Georgia, was completed and occupied.





JUNE 1962 The Chief Counsel established a Summer Student Assistant program, which included second year law students for temporary employment.

OCTOBER 16, 1962 President Kennedy signed the Revenue Act of 1962. This act was intended to "revise and reform" the tax system. It added entertainment expense rules and set forth the first "information reporting" system to report dividends, interest, and patronage dividends exceeding \$10 annually per recipient.

The law mandated that the IRS develop the Income Information Document Matching Program to determine whether a taxpayer had reported all income to identify individuals who had never filed a tax return. It also included a provision for an investment tax credit.

OCTOBER 24, 1962 Special agents of the IRS Investigation Section were given statutory arrest authority under IRC 7608B, Public Law 87-863. Prior to this, special agents relied on U.S. Marshals to serve arrest warrants.

DECEMBER 17, 1962 The Committee on Resources Utilization submitted a report to the Commissioner with 72 recommendations relating to the organization and procedures of the IRS.

1962 The IRS initiated the Taxpayer Compliance Measurement Program (TCMP) to measure taxpayer compliance with the tax laws.

1962 The Patman Committee, chaired by Congressman Wright Patman of Texas, investigated the activities of tax exempt organizations and privately controlled charitable foundations.

1962 Congress passed comprehensive legislation dealing with controlled foreign corporations (50 percent or more owned by U.S. persons or corporations) designed to bring "tax-haven" abuses under control. This action was based on IRS research conducted under a directive from President Kennedy.

1962 The IRS developed a booklet, "Careers in Tax Work," to be distributed through the "Teaching Taxes" course.

1962 A Treasury-IRS Committee on Statistics was established to advise tax officials on current needs for tax data for the principal users of Statistics of Income.

JANUARY 1, 1963 The Cincinnati Regional Service Center (Covington, KY) and the Dallas Regional Service Center (Austin, TX) were established.

JANUARY 24, 1963 In a message to Congress, President Kennedy recommended reducing individual and corporate income tax rates as well as structural revision and reform of the tax system.

MAY 17, 1963 Secretary of the Treasury Douglas Dillon approved the IRS field office realignment plan, to be effective January 1, 1964.







JUNE 30, 1963 The Treasury-IRS Committee on Statistics was terminated.

JUNE 1963 A committee of four distinguished training consultants appointed by the Secretary of the Treasury to review the total training effort of the IRS submitted its report which described the program as "very commendable."

JULY 1, 1963 The IRS instituted a year-round Taxpayer Assistance Program and Taxpayer Service was established as a branch in the Collection Division in the National Office.

JULY 18, 1963 President Kennedy announced a series of actions to reinforce the administration's program to correct the United States balance of payments deficit, including a request for an Interest Equalization Tax. This was a special temporary excise tax to remain in effect through 1965. This proposal was enacted into law on September 2, 1964.

SEPTEMBER 13, 1963 The Director of Practice was transferred from the IRS to the Office of the Secretary of the Treasury, under the immediate supervision of the General Counsel.

1963 The Atlanta Regional Service Center began processing individual tax returns on computer tape. The Philadelphia Regional Service Center began processing business master file returns.

1963 Major changes were made to the 1040 form, reducing the number of pages from four to two, with all tax computations included on page 1.

1963 The Civil Service Commission authorized special salary rates for revenue agents and internal auditors (GS-5 through 9) in California.

1963 The IRS established the Commissioner's Award as the Service's first exclusive honor award.

1963 The Atlanta District Director, Aubrey Ross, presented the first individual income tax refund check processed by the new automated data processing system to a taxpayer in a special ceremony at the Atlanta Service Center.

1963 The IRS, in cooperation with the Agency for International Development, initiated a program to assist foreign governments in modernizing their tax administration systems. This program was known as the Foreign Tax Assistance Program and was an outgrowth of needs identified in the 1961 Charter of Punta-del-Este, which established the Alliance for Progress.

1963 Revenue officers delivered over 100,000 "Mr. Businessman's Kits" to new businessmen in conjunction with their other duties in an effort to acquaint them with their obligations under the federal tax laws.





1963 Southwest Regional Commissioner B. Frank White received the National Civil Service League's Career Service Award as one of the 10 leading government administrators.

1963 The Self-Employed Individual Tax Retirement Act of 1962 (Public Law 87-792) necessitated the preparation of the new Form 2950SE to reflect the self-employed retirement deduction.

1963 The Alcohol, Tobacco, and Firearms Division staged the first phase of Operation Dry-Up in South Carolina.

1963 The IBM 7070 computer system at the National Computer Center was converted to a IBM 7074 system and a second IBM 7074 computer was installed to provide additional processing capacity for new service centers opening in 1964.

1963 Construction began on regional service center buildings in Austin and Philadelphia.

JANUARY 1, 1964 The number of regions was reduced to eight and the number of district offices was reduced from 62 to 58. Districts in Camden, Kansas City, Scranton, and Syracuse were discontinued. The Omaha Region was abolished. The designation "area service center" was replaced by the organizational identification Boston-New York Regional Service Center, Chicago Regional Service Center, and the San Francisco Regional Service Center (located respectively in Lawrence, Massachusetts; Kansas

City, Missouri; and Ogden, Utah). The boundaries of the Cincinnati Region were realigned to include Indiana, Kentucky, Michigan, Ohio, West Virginia, and jurisdiction was established over Internal Revenue districts in Indianapolis, Louisville, Detroit, Cincinnati, Cleveland, and Parkersburg. The Cincinnati Region became the Central Region.

JANUARY 8, 1964 President Johnson said in his State of the Union address, "The most damaging thing you can do to any businessman in America is to keep him in doubt, and to keep him guessing, on what our tax policy is."

FEBRUARY 11, 1964 The IRS modified the titles of Internal Revenue regions. The Atlanta Region became the Southeast Region; the Boston Region became the Northeast Region, etc.

Service Centers were redesignated as IRS Center, Austin; IRS Center, Chamblee, etc. There were a total of seven service centers at this time. (Austin, Atlanta, Cincinnati, Kansas City, Lawrence, Ogden, and Philadelphia).

FEBRUARY 26, 1964 President Johnson signed the Revenue Act of 1964 which reduced taxes with the goal of stimulating consumption and investment. This bill called for a \$14 billion tax reduction and introduced moving expense deductions. The reduction of tax rates in this act required the preparation of new tax rate tables.





FEBRUARY 1964 President Johnson met with top IRS executives at the White House. During this meeting the President stated that taxpayers "have every reason to expect from the men of the Internal Revenue Service total integrity... but the price of integrity is eternal vigilance."

APRIL 1, 1964 The National Office Chief Counsel organization was realigned by eliminating the intermediate supervisory level between the Chief Counsel and the directors of the two technical divisions by abolishing the associate and assistant chief counsel (technical) positions and establishing an executive assistant position.

MAY 15, 1964 The Tax Return Forms Committee was redesignated the Tax Forms Coordinating Committee and placed in the Office of the Commissioner. Committee membership consisted of a chairman appointed by the Commissioner and a representative from each Assistant Commissioner and Chief Counsel. This Committee also assumed the duties of the discontinued Forms Letter Committee.

JULY 10, 1964 Mortimer M. Caplin resigned as Commissioner.

SEPTEMBER 2, 1964 Congress passed the Interest Equalization Tax Act.

SEPTEMBER 8, 1964 The first Honeywell H-200 computer was delivered to replace the IBM 1401 computers in the service centers.

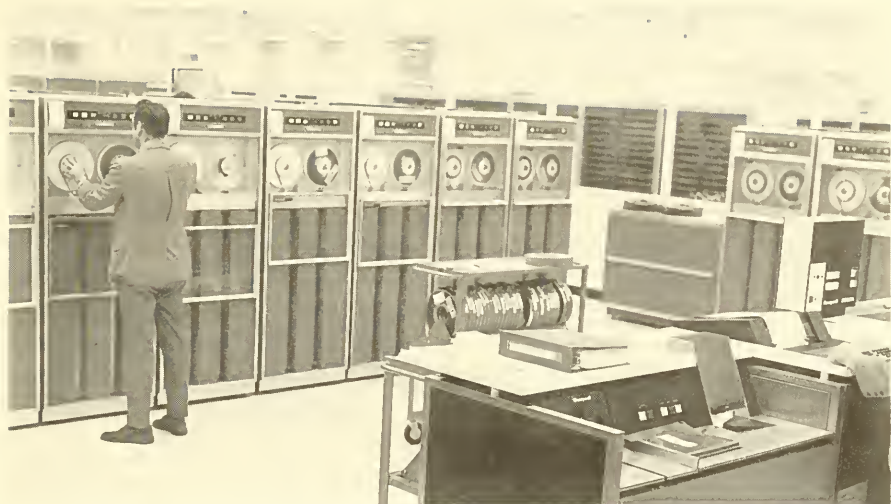
NOVEMBER 5, 1964 William E. Palmer was selected as the first director of the IRS Data Center in Detroit.

1964 Based on the results of a lease-purchase study, the three computers at the North-Atlantic, Midwest, and Western Service Centers and the two large-scale computers and support equipment at the National Computer Center were purchased this year.

1964 Two new service centers (Austin and Cincinnati) began processing business master file returns. Service centers began issuing a machine generated "follow-up" notice on individual income tax accounts. This replaced the notice previously issued manually by district offices.

1964 The IRS developed exhibits of unserviceable firearms depicting the six categories subject to registration and control under the National Firearms Act and notations as to the provisions of the act and the role played by the IRS in its administration and enforcement, was manufactured and shipped to each region earlier in the year.





*Computer rooms became standard features of the new IRS service centers throughout the country.*

1965-1969

ADP, IMF, BMF, FTD, DDES, DIF, IDRS:  
TAX COLLECTION BECOMES  
ALPHABET SOUP



The application of automated data processing to tax return processing spawned a new language of computerized functions. For the first time, the IRS had access to a “master file” of information on both individual and corporate taxpayers, vastly easing the work of processing returns, auditing returns, and matching other computerized data to returns. By the end of the 1960s, the IRS had seven service centers in operation and all tax processing had moved from district offices to these new facilities.



JANUARY 1965 Some 300,000 residents in the Southeast Region received requests for help in correcting service center records, which claimed they had filed in 1962 but not in 1963.

JANUARY 1, 1965 The Business Master File became operational nationwide.

JANUARY 1, 1965 For the first time, taxpayers in the Southeast Region could file their individual returns directly with the service center if they expected a refund. Over four million taxpayers used this option this year.

JANUARY 1, 1965 The IRS began using high speed microfilm readers. Taxpayer directories, returns and document indexes, and settlement registers were provided on microfilm for master file taxpayers in the Southeast and Mid-Atlantic Regions. This became available in all district offices on July 1, 1965.

JANUARY 4, 1965 The number of regions was reduced to seven with the abolishment of the Northeast Region. This region became the North-Atlantic Region with headquarters in New York City.

JANUARY 25, 1965 Sheldon S. Cohen of Maryland became Commissioner.

MARCH 31, 1965 IRS executives met with President Johnson in the East Room of the White House. During the meeting, the President praised the IRS for its efforts to economize and stated that he

desired "an alert, vigorous group of officials in the IRS."

APRIL 1965 The IRS Chief Counsel function initiated a Professor Tax Law Program.

MAY 1965 A regional conference on tax administration in Latin America was held in Miami under the joint sponsorship of the IRS and the Agency for International Development.

JUNE 10, 1965 The service centers were redesignated as IRS Service Center, Central Region; IRS Service Center, Mid-Atlantic Region, etc.

JUNE 21, 1965 The Excise Tax Reduction Act of 1965 became law. This law represented a comprehensive overhaul of the Federal excise tax structure.

When the reductions became fully effective on January 1, 1969, excises were limited to three general groups— 1) alcohol and tobacco taxes, 2) highway user and air transportation taxes, automobile taxes, and fishing equipment taxes, and 3) regulatory taxes on narcotics, phosphorous matches, and wagering.

This act eliminated the 10 percent luxury tax on such items as jewelry, furs, cosmetics and rolled back manufacturers' taxes on appliances, sporting goods, business machines, auto parts, etc.

JUNE 1965 A Distilled Spirits Standards and Labeling Survey Committee was established to reappraise the various regulations issued under the Federal Alcohol Administration Act.





JULY 1, 1965 The IRS Data Center opened in Detroit.

JULY 1965 The Technical organization in the National Office was realigned by type of tax rather than by function.

AUGUST 25, 1965 President Johnson announced the introduction of a new Planning-Programming-Budgeting (PPB) System throughout the Executive Branch. This new system replaced the Long-Range Plan.

OCTOBER 1965 The second phase of Alcohol, Tobacco, and Firearms Operation Dry Up was staged in northern Georgia.

DECEMBER 31, 1965 The IRS hosted a reunion of former and present members of the Commissioner's Advisory Group. Of 73 living alumnae, 70 attended.

DECEMBER 1965 The Ogden Service Center moved to its new facility adjacent to the Defense Depot, Ogden. The facility was not officially dedicated until March, 1967.

1965 The IRS instituted the first centralized toll-free telephone site.

1965 A magnetic tape reporting pilot was made available to employers for Form W-2 and 1099 information and a computerized tape library system was installed nationwide. As a result, an operational tape reporting program began for 1965 payment information in the 1966 filing season with 591 entities.

1965 The IRS established a nationwide Intelligence career program.

1965 The IRS began validating taxpayer social security numbers against social security information.

1965 The Office of International Operations was restructured and the Research, Tax Treaty, and Technical Services Division was established in the National Office.

1965 The position of Deputy Chief Counsel was created as part of the National Office reorganization. Also, the Operations and Planning Branch was created.

1965 IBM 7070-7074 computers at the National Computer Center were replaced with IBM 360-65 computers.

1965 The title of settlement officer was changed from "Technical Advisor" to "Appellate Conferee."

1965 The Newark District and Chapter 60 of the National Association of Internal Revenue Employees (NAIRE) negotiated a collective bargaining agreement covering all employees of the district except management officials, technical employees, and investigative personnel. This was the first substantive union agreement negotiated in the IRS.

1965 The IRS established an Exempt Organization Master File System to cope with the rise in the number of organizations and pension trusts seeking tax exemption.





JANUARY 1, 1966 Individual Master File operations were introduced in the Southwest, Central, and Western Service Centers. The Detroit Data Center also began operations on this date.

JANUARY 1, 1966 The tax on manufactured tobacco (smoking and chewing tobacco and snuff) that had been in existence for 103 years was repealed.

MARCH 16, 1966 President Johnson approved the Tax Adjustment Act of 1966, which provided for withholding of personal income taxes at graduated rates beginning May 1, 1966, and sped up the collection of corporate taxes.

MAY 5, 1966 President Johnson stated that "the campaign against racketeering must not only be continued but it must be accelerated." In response, the Intelligence Division established an Organized Crime Drive as an integral part of regular district operations.

MAY 1966 A Seminar for Directors-General of Taxation was held in Washington as the first step in providing a permanent forum for the exchange of ideas, concepts, and experiences for the improvement of tax administration among executives of tax administration agencies in the Western hemisphere. This led to the creation of the Inter-American Center of Tax Administrators in 1967.

JUNE 5, 1966 The Civil Service Commission authorized increases in the pay rates for GS-5, 7, and 9 accountants, auditors, and internal revenue agents to overcome handi-

caps in recruiting because of higher private sector salaries. This authority also permitted the IRS to hire accounting students under work-study agreements and offer career-conditional appointments noncompetitively after a six-month training period.

JULY 18, 1966 Congress enacted a law providing payment of some legal costs in favor of the taxpayer.

JULY 1966 The IRS instituted the large case audit program to replace the "one man, one case" practice that had dominated corporation audit techniques.

AUGUST 8, 1966 The Beatles' recording of "The Tax Man" was released in the United States on the album "Revolver."

NOVEMBER 2, 1966 Congress passed a law which stated that taxpayers could be required to file returns directly with a service center instead of a district office. The IRS introduced this change into the Southeast Region in 1968 and completed the transition nationwide by 1970. This act also discontinued the practice of allowing legal action regarding a refund to be taken against a collector as a personal action.

NOVEMBER 13, 1966 The President signed the Foreign Investors Tax Act making comprehensive changes in the concepts of U.S. taxation of nonresident aliens and foreign corporations.

DECEMBER 19, 1966 The North Atlantic Service Center relocated from Lawrence to Andover, Massachusetts.





1966 The piloting of a toll-free telephone network increased the IRS effort to handle most taxpayer inquiries by phone.

1966 The IRS tested a single-font optical scanner in the Southeast Service Center this year.

1966 The first Data Processing Management Training Program was established and the first Data Processing Career Management Register was established.

1966 Branch offices of the Alcohol, Tobacco, and Firearms Division were closed in Buffalo, Charleston, West Virginia; Omaha, and Milwaukee.

1966 Mary E. Taylor became the first woman to enter the Executive Development and Selection Program. She was one of 17 candidates selected from over 300 nominees.

1966 This year marked the beginning of a series of International Tax Training (INTAX) seminars and courses for the officials and managers of tax agencies of developing countries.

1966 Special salary rates for revenue agents and internal auditors were expanded nationwide.

1966 Title I of the Foreign Investors Tax Act of 1966 brought about a comprehensive revision of the federal income, estate, and gift tax laws applicable to foreign persons. Title II made several significant amendments to the income tax laws and Title III provided for the estab-

lishment of the Presidential Election Campaign Fund.

1966 The Revenue Act of 1966 revised the system of federal tax liens.

1966 The IRS opened a second regional training center in the Central Region.

1966 Congress passed the Tax Adjustment Act of 1966 which moderated some of the revenue reductions of the Excise Tax Reduction Act of 1965.

1966 The IRS instituted the new "Planning-Programming-Budgeting System" as a major tool for projecting long-range trends in Service programs and resource requirements.

1966 The IRS inaugurated a program to provide magnetic tapes of selected data from the master file to state tax authorities after an IRS survey revealed that most states used computers for tax processing.

JANUARY 1, 1967 For the first time, the IRS processed returns to the Individual Master File nationwide. This completed six years of intensive effort to establish a national automated federal tax system.

JANUARY 1, 1967 The Taxpayer Inquiry Sampling Program began as the primary device for detecting nationwide taxpayer problems. In this program, the top 25 taxpayer inquiries were analyzed to determine areas which required special clarification.





MARCH 1967 The pilot for a new Direct Data Entry System (DDES) was installed at the Southeast Service Center. The initial process involved 24 keypunch operators and verifiers using a General Electric/Process Automatic Computer (GE/PAC).

MARCH 1967 Payment of travel and transportation expenses to first-post-of-duty was authorized for new revenue agents and internal auditors.

MAY 1967 The Inter-American Center of Tax Administrators (CIAT) was founded at a meeting in Panama City, Panama, to provide a forum for the exchange of information, experience, and technical assistance in tax administration in the Western hemisphere. Commissioner Cohen was elected President of the Center's Executive Council.

JUNE 1967 Public reading rooms opened in the National Office and the seven regional offices.

JUNE 1967 A study group report on revenue officer attitudes, morale, and motivation was submitted to the Assistant Commissioner (Compliance) with the objective of improving the working climate for this key front-line occupation.

JUNE 1967 The Regional Training Center moved from Detroit to Cincinnati.

JULY 6, 1967 The Central Service Center was relocated from Cincinnati to Covington, Kentucky.

JULY 15, 1967 Congress amended the Interest Equalization Tax Law, aimed at halting evasion of the interest equalization tax through the improper use of certificates of prior American ownership of foreign securities for the purpose of tax-free resales.

JULY 1967 The Civil Service Commission approved a nationwide special salary rate for GS-5 through GS-9 special agents.

SEPTEMBER 1967 The first of three hearings to consider amendments to the regulations in title 27, Code of Federal Regulations, Part 5, "Labeling and Advertising of Distilled Spirits," was held. As a result, a new type of domestic whiskey, to be known as "light whiskey," was authorized in January 1968.

DECEMBER 31, 1967 Documentary revenue stamps were no longer used after this date.

1967 The IRS established a Wage and Information Document Matching Program (WAID) to improve the overall document matching program. This program became fully operational in 1968 and went nationwide in 1969.

1967 The IRS tested the use of expanded hours of service and public affairs releases covering the most common audit problems.

1967 The IRS established the account referral program.

1967 The IRS initiated a long-range study of the automated data processing system to determine requirements of the 1970s and beyond. This





would later be called the Tax Administration System (TAS).

1967 A new Federal Tax Deposit (FTD) system was established for corporate estimated tax payments using preaddressed punch cards. This replaced depository receipt procedures that had been in effect for almost 20 years. The Federal Reserve Board and Office of the Treasurer sent tapes to the National Computer Center for reconciliation with the taxpayers' accounts.

1967 The position of Deputy Assistant Commissioner (Data Processing) was established and Garrett DeMots was selected as the first incumbent.

1967 The IRS Chief Counsel Library facilities were consolidated on the fourth floor of the National Office building.

1967 Mary E. Taylor, the first female graduate of the Executive Development Program, became the first female assistant district director.

1967 Three blind individuals were hired to work as taxpayer assistors in the Little Rock District in a pilot program supported by the Office of the Services for the Blind, Vocational Rehabilitation Administration.

EARLY 1968 Representatives of the National Tax Administration Agency of Japan made an in-depth study of the IRS Foreign Tax Assistance Program and later established a similar program in Tokyo to provide training and technical assistance to developing countries in Asia.

JANUARY 1, 1968 The Federal tax deposit system was extended to include payment of withholding and FICA taxes by employers and withholding agents, certain excise taxes, railroad retirement tax, regular corporation income tax, and tax on business income of exempt corporations.

JANUARY 18, 1968 The staff of the overseas offices of the Office of International Operations was cut by three persons as a result of a Presidential directive aimed at reducing U.S. dollar expenditure and personnel strength abroad. This left a total of 27 personnel in nine foreign posts.

JANUARY 1968 The phase-in of filing of individual tax returns with the service centers continued as the Southeast Region phased in all types of individual returns. In the six other regions, taxpayers with refund returns were asked to file directly with the service centers.

APRIL 1968 The IRS introduced a new amended individual income tax return form, the 1040X.

APRIL 1968 The first in a series of three hearings on the "Labeling and Advertising of Distilled Spirits" regulations was held to consider substantive changes in the regulations.

APRIL 1968 Deputy Commissioner William H. Smith was named as one of the ten Outstanding Federal Employees by the National Civil Service League.







MAY 1968 The Inter-American Center for Tax Administrators held its second annual general assembly in Buenos Aires. This organization now had members from 20 countries.

JUNE 6, 1968 The Senate ratified income tax conventions with France, Brazil, and the Philippines.

JUNE 28, 1968 Congress passed the Revenue and Expenditure Control Act of 1968. This act retroactively increased tax rates by providing a 10 percent surcharge on corporate income tax from January 1, 1968 and on individual income tax from April 1, 1968.

SEPTEMBER 1968 The second of a series of three hearings on the "Labeling and Advertising of Distilled Spirits," was held with the issuance of a Treasury Decision which established standards of identity for blended applejack and certain flavored distilled spirits, and amended the standards of identity for gin and vodka. This Treasury Decision also required the alcoholic content and the net contents to appear on the brand label of all distilled spirits.

OCTOBER 22, 1968 The Gun Control Act of 1968 was passed, adding additional firearms controls to be administered by the Alcohol, Tobacco, and Firearms Division of the IRS.

OCTOBER 1968 The IRS initiated an Appellate Conferee Evaluation Study which resulted in a test to grant settlement authority to appellate conferees. The test ended in November 1973 without settlement authority granted.

NOVEMBER 1, 1968 Title II of the Gun Control Act of 1968 became effective. This act amended the National Firearms Act by inclusion of the destructive devices category of firearms and the insertion of more stringent penalties for criminal violations of the act. The act required that all firearms, as defined by Title II, not previously registered had to be registered within a 30-day amnesty period.

NOVEMBER 15, 1968 The IRS established a Firearms Evaluation Group to provide advice concerning the development of standards to control the importation of firearms and ammunition.

DECEMBER 16, 1968 Title I of the Gun Control Act of 1968 became effective, strengthening firearms licensing provisions and setting forth comprehensive restrictions on commercial and private transactions involving firearms and ammunition and on the transportation, shipment, and receipt of these articles in interstate and foreign commerce. Under the provisions of the law, the IRS was faced with a massive licensing task.

DECEMBER 19, 1968 The Alcohol and Tobacco Tax Division changed its name to the Alcohol, Tobacco, and Firearms Division.

LATE 1968 The IRS began to contemplate changes to the tax processing systems in the service centers. This resulted in a plan to decentralize taxpayer account files from the National Computer Center to the 10 service centers, with Martinsburg operating primarily as a centralized data facilitator for the centers.



1968 The IRS completed a four and one-half year renovation project in the National Office building. The interior of the building was converted to modern, well-lighted, air-conditioned office space and traditional office layouts were changed. Old furniture was replaced with new, space-saving furniture.

1968 The IRS redesigned its official stationery and envelopes.

1968 The IRS tested a new questionnaire-type form, the 1040Q, in an effort to provide a simpler income tax return for individuals. Studies showed that not enough taxpayers would use this type of form to justify its adoption.

1968 The IRS abolished the position of Deputy Chief Counsel. The Collection Division was renamed General Litigation, with the increased responsibility of the Freedom of Information Act given to this new division.

1968 The IRS social security number file was established. Since 1965, the IRS had been validating taxpayers social security numbers by comparing them with those on a Social Security Administration-provided master tape.

1968 The Omnibus Crime Control and Safe Streets Act of 1968 and the subsequent Gun Control Act of 1968 replaced the FFA and NFA of the 1930s. Bombs and other destructive devices were added to machine guns and sawed-off shotguns as items strictly controlled by the gov-

ernment. The Alcohol and Tobacco Tax Division was given the first direct federal jurisdiction over the criminal use of explosives and this legislation greatly expanded their activities and responsibility for enforcement.

1968 The third phase of Operation Dry Up was staged in Alabama.

1968 The IRS completed a series of organizational changes in Alcohol and Tobacco Tax field offices, including the replacement of supervisor-in-charge positions with chief special investigator for enforcement and chief inspector for permissive functions positions.

1968 The Supreme Court in the Marchetti and Grosso cases upheld the right of two taxpayers convicted of failing to pay occupational and excise taxes on wagering to assert their privilege against self-incrimination under the Fifth Amendment because the returns on these taxes were not restricted as to disclosure and the extensive information contained was available to state and local prosecutors.

1968 The Office of International Operations began processing returns on the Individual Master File.

1968 The last three of seven service centers (Andover, Covington and Ogden) occupied new buildings that had been specially designed to accommodate the massive paper-work flow and complex electronic data processing requirements.





1968 After a successful pilot test in the Southeast Service Center, the IRS began to install its first operational GE-4020 direct data entry system (DDES) in the Southwest Service Center, replacing key punch machines.

1968 The financial management intern program was developed as a means of identifying, recruiting, and training promising college graduates for careers in federal financial management. Three interns were hired for the first year of the program.

1968 As the result of an employee suggestion, a system to microfilm applications for certificate of label approval in the Federal Alcohol Administration Act was implemented. This resulted in improved research ability as well as reductions in storage space.

1968 The IRS established a ten-member panel of art experts to help determine whether realistic appraisals or fair market value had been placed on works of art donated to charity and claimed as deductions on tax returns. The Association of Art Museum Directors had suggested creation of the panel.

JANUARY 20, 1969 Sheldon S. Cohen resigned as Commissioner.

JANUARY 1969 More than 30 million taxpayers received federal income tax packages printed in two colors for the first time. The use of color was intended to minimize taxpayer error.

FEBRUARY 18, 1969 The Committee on Ways and Means began hearings on tax reform. These hearings concluded on April 24, 1969.

APRIL 1, 1969 Randolph W. Thrower of Georgia became Commissioner.

APRIL 21, 1969 Tax reform was the subject of President Nixon's message to Congress.

APRIL 1969 The third and final hearing on the "Labeling and Advertising of Distilled Spirits," was held.

MAY 12, 1969 A tax museum, to be known as the Visitor's Gallery, was dedicated in the National Office and opened to the public.

MAY 1969 The third annual General Assembly of the Inter-American Center of Tax Administration was held in Mexico City.

JULY 18, 1969 The IRS established the Activist Organizations Committee, which was later renamed the Special Services Staff. The mission of this organization was to coordinate all IRS activities involving ideological, militant, subversive, radical, and similar organizations and individuals.

AUGUST 7, 1969 Congress extended the 10 percent surcharge through December 31, 1969 and placed the payment of Federal Unemployment Tax Act (FUTA) taxes on a quarterly installment basis.

NOVEMBER 26, 1969 Congress extended the interest equalization tax through March 31, 1971.



NOVEMBER 1969 Fifteen distinguished Americans were appointed to serve on a new "Commissioner's Advisory Committee on Exempt Organizations," which helped the IRS define such terms as "religious," "educational," "propaganda," and "political activity."

DECEMBER 30, 1969 The Tax Reform Act of 1969 became law. This act dramatically lowered tax rates. This was the first of the "supermajor" tax acts amending the 1954 tax code (followed by acts in 1976, 1982, 1984, and 1986).

This act applied a minimum tax to all taxpayers; established a number of excise taxes to be imposed on private foundations; increased the amount of the personal exemption; and provided that an individual's wages were not subject to withholding of Federal income tax if the taxpayer certified to his employer that he expected no Federal income tax liability.

This act also established the Tax Court as a legislative court under Article 1 of the Constitution and changed its name to the United States Tax Court. The term of office of Tax Court judges was increased from 12 to 15 years and full judicial pensions for judges who were not reappointed after the expiration of their terms were provided.

1969 Regional laboratories of the Alcohol, Tobacco, and Firearms Division in Chicago, Dallas, New York, San Francisco, and Seattle were consolidated into multi-regional laboratories in Atlanta, Cincinnati, and Philadelphia.

1969 A group of volunteers from the Cleveland Chapter of the American Red Cross were the first recipients of the Commissioner's Award outside the IRS. They received the award for the preparation of braille materials to train blind IRS employees.

1969 The IRS set out to redesign the entire tax processing system. Initial efforts produced the Tax Administration System (TAS) which envisioned a totally decentralized system under which taxpayer accounts would be maintained at service centers instead of at one central location.

1969 The IRS began using a mathematical technique called the Discriminant Function (DIF) to identify individual tax returns by computer for audit for the first time. This new selection technique provided a uniform standard for selecting returns for audit.

1969 The IRS began a test of the Integrated Data Retrieval System (IDRS) in the Southwest Region.

1969 The National Tax Foundation estimated that the average American worked one hour and 48 minutes each day to pay his or her federal taxes, up from one hour and 36 minutes in 1959.

1969 The Commissioner launched a comprehensive study of the entire IRS organization to determine whether tax administration responsibilities were being discharged in an efficient and effective manner and to ensure that the Service would be



able to adapt to the changing environment of the 1970s.

1969 Congress approved three new service centers to be constructed on Long Island, Memphis, and Fresno.

1969 A taxpayer inquiry referral system was formally adopted. This system permitted taxpayers to obtain complete service at any IRS office location.

1969 Most individual estimated income tax return filers were placed on a "voucher" system of filing this year. Rather than the IRS sending quarterly notices for estimated tax installments, taxpayers submitted each installment with a payment "voucher" that was furnished with the estimated tax form package.

1969 For the first time, the IRS presented evidence of tax evasion before a General Court-Martial in a case involving an Army noncommissioned officer who failed to report profits from black market operations in Vietnam.

LATE 1960S The IRS created the Coordinated Examination Program (CEP) to ensure uniform and consistent treatment of issues and to provide better identification and development of issues.





# Short Form 1040A U.S. Individual Income Tax Return Department of the Treasury Internal Revenue Service **1972**

Please print or type	First name and initial (if joint return, use first names and middle initials of both)	Last name	Your social security number (Husband's, if joint return)	
	Present home address (Number and street (including apartment number) or rural route)		Wife's number, if joint return	
	City, town or post office, State and ZIP code		Occupation	Yours Wife's

<b>Filing Status</b> —check only one:				
1	<input type="checkbox"/> Single			
2	<input type="checkbox"/> Married filing joint return			
3	<input type="checkbox"/> Married filing separately. If wife (husband) is also filing, give her (his) social security number and first name here.			
4	<input type="checkbox"/> Unmarried Head of Household			
5	<input type="checkbox"/> Widow(er) with dependent child (Enter year of death of husband (wife) ▶ 19 )			

<b>Exemptions</b>		Regular	65 or over	Blind	Enter number of boxes checked
6	Yourself . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	▶
7	Wife (husband) . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	▶
8 First names of your dependent children who lived with you					
Enter number ▶					
9 Number of other dependents (from line 25) . . . . .					
10 Total exemptions claimed . . . . .					

11	Wages, salaries, tips, etc. (attach Form W-2 to front. If unavailable, attach explanation) . . . . .	11	
12a	Dividends (If over \$200, use Form 1043—see instructions) \$ . . . . . 12b Less Exclusion \$ . . . . . Balance ▶	12c	
13	Interest income (if over \$200, use Form 1040) . . . . .	13	
14	Total lines 11, 12c, and 13 (Adjusted Gross Income) . . . . .	14	
● If line 14 is \$20,000 or less and you want IRS to figure your tax, see instructions on page 3. ● If line 14 is under \$10,000, find tax in Tables 1–12 and enter on line 19. Skip lines 15 through 18. ● If line 14 is \$10,000 or more go to line 15.			
15	If line 14 is \$10,000 or more, enter 15% of line 14 but not more than \$2,000 (\$1,000 if line 3 was checked) . . . . .	15	
16	Subtract line 15 from line 14 . . . . .	16	
17	Multiply total number of exemptions claimed on line 10 by \$750 . . . . .	17	
18	Taxable income (subtract line 17 from line 16) . . . . .	18	
(Figure tax on amount on line 18 using Tax Rate Schedule X, Y, or Z, and enter tax on line 19.)			

*The 1040A short form was reduced to half page size in the 1970s.*

## 1970-1973

### ECONOMIC STABILIZATION AND UNION NEGOTIATIONS: THE IRS ADAPTS TO NEW DEMANDS



Despite the vast numbers of tax returns flowing into the IRS each year, the agency continued to be given additional responsibilities. In the early 1970s the IRS was given the job of informing the public and investigating irregularities in President Nixon’s Economic Stabilization program. Other major activities included establishment of a special staff to oversee the redesign of the automated tax processing system.



JANUARY 1, 1970 Federal Unemployment Act taxes (FUTA) came under the Federal Tax Deposit (FTD) program for the first time. This tax was now payable quarterly rather than annually.

JANUARY 1970 The IRS completed a three-year study of the revenue officer occupation. In addition to providing information on recruitment and the work environment, this study revealed a changing emphasis towards higher-graded work. A number of new GS-11 and GS-12 revenue officer positions were created in recognition of this change.

FEBRUARY 1970 The IRS assigned three technical representatives to conduct examinations and investigations of black market currency activities in Vietnam and other countries in Southeast Asia.

APRIL 24, 1970 Congress provided tax relief to the crew of the U.S.S. Pueblo during imprisonment by North Korea.

MAY 21, 1970 The Airport and Airways Act of 1970 increased the tax rates on the transportation of persons by air and imposed new taxes on the use of international travel facilities, the transportation of property by air, and the use of certain civil aircraft.

MAY 1970 The Inter-American Center of Tax Administrators (CIAT) held its fourth General Assembly in Montevideo, Uruguay.

JUNE 1970 Barbara Vattran Thompson was appointed as the first Servicewide coordinator for the Federal Women's Program.

JULY 10, 1970 The IRS announced that it could not justify tax exemptions or allow charitable contributions to educational institutions with racially discriminatory admissions policies. A questionnaire requesting information on admissions policies was sent to 5,000 private educational institutions.

JULY 12, 1970 Directors were appointed for the three new service centers.

SEPTEMBER 22, 1970 A groundbreaking ceremony was held for the Memphis Service Center. Vice President Agnew participated in the ceremonies.

OCTOBER 26, 1970 President Nixon signed the Bank Records and Foreign Transactions Act. This act was also known as the Bank Secrecy Act and required individuals, businesses, and financial institutions to report cash transactions exceeding \$10,000 to the IRS. This prompted the IRS to develop the Currency Transaction Report (Form 4789) and the Casino Currency Transaction Report (Form 8372).

OCTOBER 1970 Thirty Internal Security Inspectors assisted the Secret Service in protecting dignitaries attending ceremonies at the celebration of the United Nations' 25th anniversary.





OCTOBER 1970 The Commissioner announced formation of an Advisory Committee on the Horse Industry. Composed of 15 citizens, the group included representatives of the academic community and professional groups concerned with horses, with the purpose of advising the IRS on issues such as the holding period for livestock for capital gains treatment, exchange of livestock, and hobby losses.

OCTOBER 1970 The Commissioner formed an Advisory Committee on the Cattle Industry to advise the IRS in implementing changes in the tax law dealing with cattle and livestock.

1970 The IRS discontinued Form 1040A, consolidating it with a new Form 1040 to allow more taxpayers the advantage of claiming head of household, sick pay exclusion, and other benefits.

1970 The optional tax tables were expanded to include incomes up to \$10,000, enabling more taxpayers to use these tables instead of computing their tax.

1970 The IRS established a special committee on life insurance company tax problems to study and resolve controversial issues raised in connection with examinations of federal income tax returns of life insurance companies.

1970 The Water Quality Improvement Act of 1970 required the Alcohol, Tobacco and Firearms Division of the IRS to work with the Environmental Protection Agency to develop guidelines for certification

of compliance with water quality standards prior to manufacturers of distilled spirits, wine, beer, and explosives receiving operating permits or licenses from the IRS.

1970 The IRS issued Form 4683, "U.S. Information Return on Foreign Banks, Securities, and Other Financial Accounts," to promote the government's overall efforts to combat organized crime and tax evasion.

1970 IRS special agents from the Intelligence and Alcohol, Tobacco, and Firearms Divisions and the Inspection Service served on special duty as "Sky Marshalls" on U.S. carrier international and selected domestic flights in an effort to combat "skyjacking" until a permanent force was recruited and trained for this purpose.

1970 The Executive Development Program added an electronic data processing seminar to its program.

1970 A regional test of sending 1969 individual income tax returns to federal records centers six weeks after receipt began.

1970 An Exempt Organizations Examination Branch was established in the National Office Audit Division to develop the nationwide exempt organization audit program and oversee the activities of all districts.

1970 The IRS awarded a contract to Control Data Corporation for the CDC 3300 system for the IDRS data processing system.





1970 The Excise, Estate, and Gift Tax Adjustment Act of 1970 shortened the time for filing and paying tax on estate tax returns from 15 to 9 months after the decedent's death and postponed the scheduled reduction of the 7 percent excise tax on automobiles and the 10 percent excise tax on telephone service until 1973.

1970 Due to the success of Form 1040X, the IRS introduced Form 1120X for use by corporate taxpayers.

1970 IRS-sponsored volunteer programs began during this filing season when 7,500 volunteers helped about 100,000 taxpayers as part of the new Volunteer Income Tax Assistance (VITA) program.

1970 Congress passed the Comprehensive Drug Abuse Prevention and Control Act in response to the Presidentially-declared "War on Drugs." With passage of this act, for the first time Federal drug control enforcement authority was based on the principle of interstate commerce rather than taxation. Title 21 of this act dealt with controlled substances and replaced the previous narcotic and dangerous drug control laws with a single statute. Licensing requirements were extended to all controlled substances and not just narcotics.

JANUARY 1971 Testing began to determine the feasibility of using microfilmed images of individual tax returns and documents in lieu of the original documents. Known as STAR (Storage and Retrieval of Images of Returns and Related Documents), this system was tested by the Cincinnati Service

Center and the Cleveland District Office.

JUNE 22, 1971 Randolph W. Thrower resigned as Commissioner.

JUNE 1971 President Nixon called for increased efforts to combat the growing problem of drug abuse. In response, the IRS set up a special program to conduct tax investigations of key figures engaged in narcotics traffic.

JULY 1, 1971 The Office of the Assistant Commissioner (Data Processing) was redesignated the Assistant Commissioner (Accounts, Collection, and Taxpayer Service).

JULY 9, 1971 The National Association of Internal Revenue Employees (NAIRE) submitted proposals for a nationwide bargaining agreement to the IRS. Negotiations continued for nine months.

JULY 23, 1971 The three new service centers were officially designated as the IRS Service Center, North Atlantic Region (Brookhaven); IRS Service Center, Western Region (Fresno); and IRS Service Center, Southeast Region (Memphis).

AUGUST 6, 1971 Johnnie M. Walters of South Carolina became Commissioner.

AUGUST 15, 1971 President Nixon announced a 90-day freeze on most prices, wages, and rents. The President's executive order created the Cost of Living Council as a major policy making body. The Office of Emergency Preparedness took over



responsibility to implement, administer, and enforce the Economic Stabilization Program.

AUGUST 19, 1971 The Office of Emergency Preparedness redelegated responsibility to the IRS to establish local service and compliance centers to provide information to the public, investigate complaints, and monitor compliance with the Economic Stabilization Program.

AUGUST 1971 The Western Service Center was redesignated the Ogden Service Center.

OCTOBER 15, 1971 President Nixon issued an Executive Order providing the legal foundation for Phase II of the Economic Stabilization Program. This order continued the Cost of Living Council and created the Pay Board and Price Commission. The role of the IRS was to receive inquiries and complaints, conduct investigations, and perform other related duties.

NOVEMBER 14, 1971 The IRS established a position for an Assistant Commissioner (Stabilization). The Office of the Chief Counsel also established a Stabilization Division. President Nixon officially assigned responsibility for enforcement of the program to the IRS. Field offices were established at IRS regional and district offices.

NOVEMBER 1971 The building for the Memphis Service Center was completed.

1971 The Integrated Data Retrieval System (IDRS) was successfully implemented at the Southwest Service Center (Austin).

1971 The Revenue Act of 1971 included a job development investment credit and a new depreciation system as well as an increased standard deduction and extension of the optional tax tables to more taxpayers. It also reduced revenues some \$26 billion over a three-year period.

1971 The IRS developed the Employee Plan Master File System to link employer entities with adopted plans, the trusts or funds through which they financed their plans and the fiduciaries of these trusts or funds.

1971 The Taxpayer Service function was reorganized and upgraded organizationally as the Taxpayer Service Division under the Assistant Commissioner for Accounts, Collection, and Taxpayer Service. Taxpayer Service remained part of the collection function in IRS district offices.

1971 The IRS tested the Centiphone System (Centralized Taxpayer Information by Telephone) in the Little Rock District. This system permitted taxpayers to call district offices at the local call rate.

1971 The IRS tested an automated Remittance Processing System to modernize the clearing, depositing, and crediting of checks to a taxpayer's account.







1971 A bomb detonated and killed an employee in the Los Angeles District.

1971 The Commissioner ordered a study to determine the feasibility of reintroducing the 1040A short form income tax return. This resulted in development of a half-sheet size form for reporting 1972 taxes.

1971 Dean J. Barron replaced Robert L. Jack as Assistant Commissioner (Data Processing).

1971 The fifth General Assembly of the Inter-American Center of Tax Administrators met in Rio de Janeiro.

1971 An Office of Industrial Economics was established in the Planning and Research function with responsibility for recommending changes in definitions of asset guideline classes and in the associated depreciation and repair norms necessary to the new Class Life Depreciation Range System.

1971 The Art Advisory Panel was expanded from 10 to 18 members.

JANUARY 1, 1972 The new service centers in Memphis and Fresno began processing tax returns.

MARCH 1972 The Pay Board delegated authority to the IRS to approve or deny exceptions for wage and salary adjustments under the Economic Stabilization Program.

MARCH 1972 The Internal Security Division assumed jurisdiction over assaults and threats against IRS employees.

APRIL 5, 1972 The IRS signed an agreement with the National Association of Internal Revenue Employees (NAIRE) which covered all district offices and provided NAIRE with exclusive union recognition. The agreement covered about 28,000 employees and marked the first time the IRS and a federal employee union reached a nationwide agreement.

MAY 1972 The Price Commission delegated authority for exceptions in all rent and price cases involving firms with annual sales or revenues of \$50 million or less to the IRS.

JULY 1, 1972 The new service center at Brookhaven began processing tax returns.

JULY 1, 1972 The Alcohol, Tobacco, and Firearms Division was separated from the IRS and established as an independent Bureau in the Treasury Department. The Alcohol, Tobacco, and Firearms Division was also removed from the Chief Counsel area at this time. With this shift, the IRS lost 4,000 staff years and \$73.7 million of its appropriation.

OCTOBER 1972 The Treasury Building was designated as a National Historic Landmark. This building is the third oldest continually occupied federal office building in Washington (after the White House and the Capitol).





1972 Congress enacted legislation providing for jurisdictional coordination between the United States and the Territory of Guam on individual income tax payments. Taxpayers could now file and pay tax to only one of the two jurisdictions, depending on their place of residence at the end of the tax year.

1972 The Integrated Data Retrieval System (IDRS) operated successfully in the Austin Service Center and the six states of the region. The IDRS was installed at all service centers and district offices over the next two years.

1972 Revenue Ruling 72-315 allowed all finance charges on revolving credit charge accounts to be deductible as interest on federal income tax returns. This applied to retail store revolving charge accounts as well as bank credit cards. Previously the limit was six percent of the average unpaid monthly balance. The ruling was made retroactive to returns filed in the last three years.

1972 The Multiple Filer Audit Program began late this year by using computers to analyze individual returns to determine if more than one return had been filed under the same social security number.

1972 The IRS began to send teams of revenue agents and tax auditors to overseas posts to conduct on-site audits rather than relying on correspondence.

1972 The sixth General Assembly of the Inter-American Center for Tax Administrators (CIAT) was held in Asuncion, Paraguay.

1972 The IRS initiated a Federal Tax Deposit (FTD) Alert Program to identify failures of employers to deposit taxes withheld from employees' wages.

1972 The Executive Development Program was revised to place more emphasis on the typical work of a field official, decision-making, and problem-solving at the field level.

1972 The IRS reinstated the 1040A short form.

1972 The IRS completed construction of a new auditorium on the 7th floor of the National Office. The facility was named the Boutwell Auditorium in honor of the first Commissioner of Internal Revenue.

1972 The IRS began to provide tax information in Spanish. The IRS announced the publication of a new Spanish language guidebook for individual taxpayers in joint press conferences in New York, Miami, and Los Angeles.

1972 The Service Center Review Program began with the goal of resolving issues at the service center level through correspondence with the taxpayer.

1972 The Federal-State Tax Collection Act of 1972 authorized the IRS to enter into agreements with states to collect state individual income taxes if the state conformed



its individual income tax law closely to federal tax law.

1972 During the filing season, the IRS launched a nationwide program to identify and prosecute unscrupulous tax return preparers known as the Return Preparers Compliance Program.

1972 The IRS used a separate attachment (Form 4875) to allow taxpayers to respond to the Presidential Election Campaign Check-Off option added to the income tax this year. The separate form was necessary because taxpayers were required to designate their political party affiliation.

JANUARY 11, 1973 The Economic Stabilization Program entered Phase III, placing mandatory controls on about 850 of the nation's largest firms and certain problem industries. Voluntary adherence to price and wage guidelines was emphasized. The Cost of Living Council became the sole policy-making body and the Pay Board and the Price Commission were abolished.

JANUARY 30, 1973 Service personnel participated in a ceremony marking the 100th graduate trained as a Taxpayer Service Representative at the Arkansas Enterprises for the Blind.

JANUARY 31, 1973 The Chief Counsel organization abolished the Stabilization Division.

MARCH 12, 1973 The IRS announced the appointment of Carolyn K. Buttolph as the first

female District Director. Buttolph moved from being Assistant Director of the Albany District to be Director of the Burlington District after graduating from the Executive Development program in 1972.

APRIL 13, 1973 A second multi-unit agreement with the National Association of Internal Revenue Employees (NAIRE) was signed, covering the approximately 26,000 employees of the service centers, the National Computer Center, and the Data Center. The agreement became effective July 1.

APRIL 30, 1973 Johnnie M. Walters resigned as Commissioner to join the Washington, D.C. law firm of Hunton, Williams, Gay, Powell, and Gibson.

MAY 25, 1973 Donald C. Alexander of Ohio became Commissioner.

JUNE 16, 1973 President Nixon ordered a 60-day freeze on most prices. The Cost of Living Council and the IRS were given responsibility for enforcing the freeze regulations, answering inquiries, and processing requests for exceptions and exemptions.

JULY 1, 1973 The IRS realigned processing activities by routing some tax returns from the old to the new service centers.

JULY 1, 1973 The Detroit Data Center moved into a new facility in downtown Detroit.





AUGUST 13, 1973 The IRS abolished the Special Services Staff.

AUGUST 13, 1973 Phase IV of the Economic Stabilization Program began. The IRS was given responsibility to receive and process price increase requests, review quarterly profit margin reports, issue subpoenas for witnesses and books, and collect and compromise civil penalties for violations. The IRS was also authorized to perform additional technical and analytical tasks formerly reserved to the Cost of Living Council.

1973 Honeywell H2050A computers replaced Honeywell H-200s in IRS service centers.

1973 The Integrated Data Retrieval System (IDRS) installation was completed in all IRS regions.

1973 Robert H. Terry was selected as Assistant Commissioner (Accounts, Collection, and Taxpayer Service), succeeding Dean J. Barron who moved to Planning and Research.

1973 The IRS developed a two-week course for revenue agents in special enforcement techniques assigned to the Strike Force or Narcotics Trafficker Programs.

1973 The IRS eliminated Schedule B of Form 1040, used to report dividend and interest income.

1973 The IRS began a system of Management by Objectives and Assessment by Results to supplement normal management processes.

1973 The IRS established a Tax Systems Redesign Division to undertake a major redesign of IRS data processing systems.

The master file at the National Computer Center would be decentralized to the 10 service centers under the system envisioned as part of the Tax Administration System (TAS).

1973 The Commissioner's Advisory Group was reinstituted when the Commissioner appointed 12 prominent accountants, attorneys and educators to serve on the Advisory Group during the year.

1973 For the first time, women served as part of the IRS instructor team for overseas military personnel.

1973 In an effort to reduce over-withholding of income tax on wages, the IRS simplified Form W-4 and sent a message to more than 4.5 million employers requesting them to ask their employees to review their tax situation to reduce excessive withholding.

1973 During the filing season, the IRS tested preparing returns on mini-computers while the taxpayer waited at four test sites (Boston, Brooklyn, Philadelphia, and Washington). Over 9,000 1040A returns were prepared in this manner. The IRS also conducted a Pre-Filing Returns Review Test in two district offices to determine taxpayer response to the offer to review returns for accuracy before filing.

1973 The Federal Energy Office (FEO) was created to oversee energy-related problems as the





energy shortage became critical. Since the IRS had employees experienced in conducting petroleum investigations, they were called upon to continue enforcing energy controls until FEO could assume this responsibility. A Memorandum of Understanding between the FEO Administrator and the Commissioner was established.

1973 The IRS issued the 1973 edition of the Tax Guide for Small Business. This revision, completed in cooperation with the Senate Select Committee on Small Business, was the first since 1956.

1973 The IRS established a National Forensic Laboratory in Chicago to focus investigations on white collar crime.

1973 The National Association of Internal Revenue Employees (NAIRE) changed its name to the National Treasury Employees Union (NTEU) during the group's national convention in San Francisco.







*Individualized taxpayer service facilities such as this one sprang up in IRS offices around the country in the 1970s.*

## 1974 - 1979

### OUTREACH AND AUTOMATION: THE RISE OF TAXPAYER SERVICE AND THE DEMISE OF TAS



Expansion in the efforts of the IRS to reach out and assist taxpayers with the annual ritual of filing their 1040s was a hallmark of these years. Continued increases in the number of tax returns filed resulted in intensified efforts to upgrade the processing capabilities of the service centers. Unfortunately, budget constraints and increasing concerns about the security and privacy of more and more computerized information prompted Congress to withdraw support for a major proposed upgrade known as the Tax Administration System during this period.



**JANUARY 1, 1974** For the first time, limited pretrial discovery was permitted before the Tax Court as a result of new Tax Court Rules of Practice and Procedure.

**JANUARY 2, 1974** A nationwide toll-free telephone service was available in 135 locations in the United States, Alaska, Hawaii, and Puerto Rico for the first time.

**FEBRUARY-APRIL 1974** The IRS recruited, hired, and trained 860 new employees to form a field enforcement staff for the Federal Energy Office. The IRS had direct control and supervision over them until FEO assumed the responsibility for direction and control of energy activities on July 1.

**APRIL 1, 1974** The Chief Counsel function established the Disclosure Litigation Division to handle Freedom of Information requests and disclosure issues. These matters were formerly handled by the General Litigation Division.

**APRIL 1, 1974** District Conference staffs were given authority to settle cases for tax years where the proposed deficiency or claimed refund was \$2,500 or less.

**MAY 1, 1974** William E. Williams was appointed Deputy Commissioner, replacing Edward Fitzgerald who retired after 37 years of IRS service.

**JUNE 30, 1974** The Assistant Commissioner (Stabilization) ceased to exist and personnel were phased back into tax administration roles.

**JULY 1, 1974** The taxpayer service organization was separated from enforcement activities at the district office level.

**JULY 21, 1974** The Office of the IRS Chief Counsel was reorganized and the General Legal Services Division was established to handle non-tax legal matters. This new office replaced the Operations and Planning Division.

**AUGUST 1974** The IRS formalized its Upward Mobility program to emphasize opportunities for employees in grades GS 1 through 7.

**SEPTEMBER 20, 1974** President Ford signed an Executive Order setting forth legally binding procedures whereby the President was required to personally sign all requests for copies or inspection of tax returns and had to designate in writing the member of his staff authorized to see specifically identified returns on his behalf.

**DECEMBER 2, 1974** The Employee Retirement and Income Security Act of 1974 (ERISA) enacted complex rules governing the form and management of pension funds. This act created the first statutory position below the Commissioner in the position of Assistant Commissioner (Employee Plans and Exempt Organizations).

This new office was responsible for carrying out regulatory responsibilities assigned to the IRS with respect to employee benefit plans as well as to tax exempt organizations. The new office consisted of Employee Plans, Exempt Organi-





zations, and Actuarial Divisions, transferred from the Audit and Technical organizations. The law set forth minimum vesting, participation, and funding standards, and limits on contributions.

DECEMBER 31, 1974 The IRS was relieved of its responsibility for Economic Stabilization activities.

1974 Five new international operations posts were authorized: Canberra, Australia; Caracas, Venezuela; Johannesburg, South Africa; Kuala Lumpur, Malaysia, and Teheran, Iran. This brought the total number of international posts to 14.

1974 The IRS printed 2.5 million tax forms on recycled paper as an experiment, including those for farmers and fishermen.

1974 The eighth annual general assembly for the Inter-American Center of Tax Administrators (CIAT) met in Kingston, Jamaica.

1974 A commercial, computerized legal research system, known as LEXIS, was tested by the Chief Counsel to determine the effectiveness of such a system.

1974 Printing contractors mailed all tax packages directly to taxpayers for the first time.

1974 The IRS reinstated Schedule B of Form 1040 (dividend and interest income).

1974 The Social Services Amendment of 1974 empowered the IRS to collect delinquent child support

payments on behalf of certain state agencies for cases in which a court-ordered child support obligation was delinquent and an assignment of support rights had been executed as a condition of eligibility for Aid to Families with Dependent Children.

1974 The IRS initiated a Reports Curtailment Project to reduce and improve reporting requirements and to improve continuing reports. As a result, 308 reports were cancelled.

1974 The IRS published a booklet titled "The Collection Process," designed for individual taxpayers who had received their second delinquency notice.

1974 Changes in tax forms this year included the shortening and simplification of instructions for forms 1040 and 1040A; the placement of the designation for the Presidential Election Campaign Fund Check-off on the face of forms 1040 and 1040A (with the change in law eliminating party preference); and dropping the requirement to list recipients of charitable contributions for which taxpayers had receipts or canceled checks.

1974 The Chief Counsel established an EEO Advisory Commission.

1974 James I. Owens assumed the position of Deputy Assistant Commissioner (Accounts, Collection, and Taxpayer Service).

1974 IRS instituted a revised document matching program, known as the Information Returns Program.





1974 The IRS initiated the practice of industry-wide audits, involving the contemporaneous examination of all major companies in a given industry, to make sure that certain tax issues related to that industry are treated uniformly throughout the industry.

1974 The Austin Service Center was designated as the processing center for prisoner-of-war returns.

1974 The IRS established a nationwide tax shelter examination program coordinated by the National Office.

1974 The structure of the audit division in district offices was reorganized to bring tax auditors and revenue agents together in the same groups and branches. This was the first restructuring of the audit division since 1959.

1974 Congress enacted the Privacy Act of 1974, which imposed conditions under which disclosures of personal information could be made, established notice and recordkeeping requirements relating to disclosures, established procedures by which an individual could inspect and request amendment of personal records, and provided civil remedies and criminal penalties for violations.

FEBRUARY 1975 The IRS concluded a two-year collective bargaining agreement with the National Treasury Employees Union (NTEU) covering 2,200 employees in the National Office. It provided for bilateral union-management decision-making in personnel policies and practices, such as promo-

tions and performance evaluations.

MARCH 29, 1975 Congress enacted the Tax Reduction Act of 1975. It included a provision for an Earned Income Tax Credit (EITC), available to married individuals filing joint returns who were entitled to a dependency exemption for a child, surviving spouses, and heads of household with children. The act also authorized a rebate of 10 percent of an individual's 1974 income tax liability, with a minimum rebate of \$100 and a maximum rebate of \$200. The act also included a Personal Exemption Credit which provided an additional \$30 personal exemption tax credit and a house purchase or Residence Credit which provided for a maximum \$2,000 tax credit on the purchase of a new principal residence, the construction of which began before January 1, 1976.

APRIL 1975 Tax Advocates and Analysts filed suit in the District Court for the District of Columbia seeking access to all letter rulings issued since the effective date of the Freedom of Information Act, subject only to deletions of trade secrets, confidential commercial or trade information, or clearly unwarranted invasions of privacy.

JUNE 1975 The Commissioner led the United States delegation to the ninth annual Inter-American Center of Tax Administrators (CIAT) meeting in Ottawa, Canada.

JULY 1, 1975 The interest rate on under or over payment of federal income tax was set at nine percent.





**JULY 1975** The IRS concluded negotiations for a three year collective bargaining agreement with the National Treasury Employees Union (NTEU), covering 30,000 employees in the Data Center, National Computer Center, and the 10 service centers.

**AUGUST 1975** The IRS developed and sent Notice 403 to taxpayers required to furnish their social security numbers for tax administration purposes.

**SEPTEMBER 28, 1975** The Privacy Act became effective. This act affected over 200 major tax forms.

**SEPTEMBER 1975** The Office of Management and Budget approved the IRS program for designing and acquiring a new data processing system to be called the Tax Administration System (TAS).

**DECEMBER 22, 1975** Congress enacted the Revenue Adjustment Act of 1975. Enactment late in the year required the IRS to communicate the provisions of the act to taxpayers who had already filed fiscal year returns as well as those who were about to file their calendar year returns.

**1975** The Integrated Data Retrieval System in the service centers was upgraded with CDC 3500 computers to provide faster processing capabilities.

**1975** Anita Alpern was appointed Assistant Commissioner (Planning and Research), making her the first career woman in the IRS and the

Department of the Treasury to reach grade GS-18 as well as the first female assistant commissioner.

**1975** The IRS organized a new Small Business Advisory Committee in an effort to recognize and deal with the particular tax problems of small businesses.

**1975** The IRS began using the Discriminant Function System (DIF) to select partnership returns for audit.

**1975** The IRS and the Securities Exchange Commission jointly investigated corporations for illegal political contributions, foreign and domestic.

**1975** The optional tax tables were expanded to cover adjusted gross income up to \$15,000. Other changes in the 1975 tax return included the addition of a new line for the earned income credit.

**JANUARY 5, 1976** Treasury Decision 7396 relieved employers from filing Form CT-1, Employers Quarterly Railroad Retirement Tax Return, on a quarterly basis. The new requirement reduced the filing of the return to once a year yet preserved the requirement for periodic depositing of taxes.

**JANUARY 1976** A case inventory control and management information reports system was implemented with computer terminals in all key districts for the Employee Plans/Exempt Organizations function to assist in controlling applications for approval of plans and plan amendments.







FEBRUARY 21, 1976 Responsibility for administering the civil aspects of the federal wagering tax laws was returned to the IRS by Treasury Order 221-3. Responsibility for enforcing the criminal aspects of the Wagering Tax Laws remained with the Bureau of Alcohol, Tobacco, and Firearms.

MAY 27, 1976 For the first time, the IRS held public hearings on tax forms 1040 and 1040A in the National Office.

MAY 1976 The Commissioner completed his term as third counselor for the Inter-American Center of Tax Administrators and attended the tenth General Assembly held in El Salvador.

OCTOBER 4, 1976 The Tax Reform Act of 1976 became law. This act affected over 700 sections of the Internal Revenue Code and required changes in virtually every tax form and eliminated the optional tax tables.

DECEMBER 1976 The IRS concluded negotiations with the National Treasury Employees Union (NTEU) resulting in a four-year collective bargaining agreement covering approximately 30,000 employees in district offices.

DECEMBER 1976 The IRS began providing telephone and teletypewriter service for the deaf on a nationwide, toll-free basis through the Indianapolis District. As a result, hearing-impaired taxpayers in all states except Alaska and Hawaii had access to services offered other taxpayers.

1976 The Department of Health, Education, and Welfare began a Parent Locator Service to locate parents who had not made court-ordered payments for child support. The IRS was directed to provide certain tax return information and to assess and collect delinquent payments as though they were tax deficiencies.

1976 Before the 1976 filing season, a standard quality review system was implemented nationwide. The methods of providing taxpayer assistance were systematically monitored and measured. In over 600,000 contacts randomly sampled during the 1976 period, taxpayer assistants achieved an accuracy rate of about 90 percent.

1976 The use of tax tables became mandatory, with tax brackets based on the amount of taxable income and an upper limit of \$20,000.

1976 The IRS created the Taxpayer Assistance Specialist position to provide a more highly qualified tax assistant to handle more complex technical inquiries. Initially, just over one-fourth of the Taxpayer Service Representatives (TSRs) were converted to Specialists.

1976 The IRS created the Service Center Collection Branch function to consolidate the processing of collection cases at the service centers.

1976 The IRS tested an Audit Information Management System (AIMS), a video terminal management information and case control system which replaced the System for Controlling Returns in Inventory



and Production (SCRIP), in the Atlanta Service Center. After a successful test, the program was implemented nationwide.

1976 The IRS began nationwide use of the Technical Reference Information System (TRI), a computerized legal research system.

1976 The Disclosure Operations Division was established in the National Office to provide program guidance to the newly created Disclosure Officer positions in all IRS field offices.

1976 The Tax Reform Act of 1976 eliminated many tax shelters and required capitalization and amortization of real property construction period interest and taxes. This law made any person preparing income tax returns for compensation subject to disclosure requirements and penalties for negligently or fraudulently preparing returns.

The identification number, address, and signature of the preparer were required as well as an annual information report. This act amended section 6103 of the Internal Revenue Code, restricting the disclosure of tax return and taxpayer information.

1976 The fiscal year was changed from July 1-June 30 to October 1-September 30.

JANUARY 1, 1977 Beginning on this date, the unauthorized disclosure of tax returns or return information was considered a felony, punishable by a fine up to \$5,000 and five years in prison.

JANUARY 2, 1977 The IRS established the position of Assistant Commissioner (Data Services). Patrick J. Ruttle was selected for this position in April 1977.

FEBRUARY 26, 1977 Donald C. Alexander resigned as Commissioner.

APRIL 1977 Secretary of the Treasury Michael Blumenthal directed that an organizational study of the IRS be conducted to determine how to make the organization more effective, efficient, and responsive to taxpayers. The Commissioner appointed an Organization Review Study Group, headed by the Deputy Commissioner, to undertake the project.

MAY 5, 1977 Jerome Kurtz of Pennsylvania became Commissioner.

MAY 1977 Negotiations between the National Treasury Employees Union (NTEU) and IRS regional offices concluded, resulting in a four-year agreement covering approximately 1,700 employees in six of the seven regions.

MAY 1977 The Inter-American Center of Tax Administrators (CIAT) held its eleventh annual General Assembly in Caracas, Venezuela.

JUNE 15, 1977 Jerome Kurtz was sworn in as Commissioner.

1977 Congress passed the Tax Reduction and Simplification Act. This act contained a new jobs credit with a nonrefundable credit to employers meeting certain criteria in the hiring of new employees in 1977 and 1978.



1977 The Carter administration approved the Tax Administration System, but concerns about taxpayer privacy, due in part to the Watergate scandals, and uncertainties over cost efficiency resulted in the deferral of further development by Congress in 1977 and 1978. The IRS had established a price tag of \$1.8 billion for the Tax Administration System.

1977 The IRS conducted an alternative filing period study in which a survey was sent to taxpayers asking for opinions on dividing the filing season into two periods, January-December with an April 15 filing deadline or July-June with an October 15 filing deadline. Three-fourths of respondents indicated they would prefer to maintain the status quo.

1977 A Service and Design Division was established in the new Assistant Commissioner (Data Processing) area to serve as the principal contact for data processing support services. Daniel N. Capozzoli was appointed as the first Director. Also, a Systems Analysis Division was established to evaluate systems, hardware, and operational efficiency, with Don Curtis appointed Director.

1977 The Criminal Tax Division of the Chief Counsel organization undertook the responsibility to review unauthorized disclosure matters.

1977 In *United States v. Paepke*, the 7th Circuit Court held that evidence illegally seized by state police officers was admissible in a subsequent criminal tax prosecution.

1977 The Andover and Fresno Service Centers began processing exempt organization returns and related documents. The Philadelphia Service Center had processed all exempt organization returns prior to this year.

1977 The IRS Chief Counsel began to employ Paralegals.

1977 The IRS created a special Problem Resolution Program aimed at helping taxpayers resolve their concerns and to bring attention to persistent taxpayer problems and complaints not resolved through normal channels.

1977 The IRS implemented the Audit Information Management System (AIMS) nationwide. This new system expanded the Integrated Data Retrieval System in service centers and allowed personnel to locate any return in the Audit Division. It also provided automated control and verification of assessments.

1977 The IRS simultaneous exam program with tax treaty countries began this year with Canada. In this program, the participating governments separately examined the affairs of selected multinational taxpayers under their respective jurisdictions.

JANUARY 1, 1978 Special service center zip codes were used nationwide for the first time, reducing the average time of mail transit by one day.





**JANUARY 1, 1978** The Combined Annual Wage Reporting (CAWR) system took effect to satisfy IRS and Social Security Administration reporting requirements. The IRS redesigned the W-2 form to transmit the Federal Insurance Contributions Act (FICA) information formerly filed on Schedule A.

**APRIL 1, 1978** A new excise tax on coal to finance the payment of black lung benefits to miners became effective.

**APRIL 1978** Carol Fay became the first female Assistant Regional Commissioner when she assumed this position for Resources Management in the Southeast Region.

**MAY 1978** The IRS participated in the Twelfth General Assembly of the Inter-American Center of Tax Administrators' (CIAT) in Port of Spain, Trinidad and Tobago. The Commissioner made a presentation on "Developing Tax Laws, Administrative Rules, and Procedures for Resolving Taxpayers' Disputes."

**JULY 2, 1978** A major reorganization of the National Office took effect. Major provisions included the redesignation of Administration to Resources Management; the redesignation of Accounts, Collection, and Taxpayer Service to Taxpayer Service and Returns Processing; the transfer of Collection from Taxpayer Service and Returns Processing to Compliance; the transfer of Disclosure from Compliance to Taxpayer Service and Returns Processing; the transfer of the Tax Administration Advisory Services activity from

Resources Management to Taxpayer Service and Returns Processing; the establishment of a Centralized Services activity to provide mass processing support services of technology and administrative operating procedures; establishment of a new National Office Resources Management (NORM) Division; the renaming of Audit activity to Examination; the renaming of Intelligence activity to Criminal Investigation; the merging of the Office of the Assistant Regional Commissioner (Employee Plans and Exempt Organizations) with the Assistant Regional Commissioner (Exam); the establishment of the Assistant Regional Commissioner (Collection).

**JULY 1978** The Chief Counsel's Office created an Employee Plans and Exempt Organizations Division.

**OCTOBER 1, 1978** The former two levels of appeals, one at the district and one at the regional level, were consolidated with Appellate to create a single administrative appeal structure at the regional level. The Assistant Regional Commissioner (Appellate) was renamed the Regional Director of Appeals and the Director, Appellate Division in the National Office became the Director, Appeals Division.

**OCTOBER 13, 1978** Congress approved the President's ERISA Reorganization Plan which eliminated overlapping jurisdiction and duplication of effort in the administration of ERISA by separating the authority of the Treasury and Labor Departments.





OCTOBER 1978 By this time, separate taxpayer service divisions existed in every IRS district office.

NOVEMBER 9, 1978 The IRS announced the reorganization of its field offices, which involved the "streamlining" of 12 districts, eliminating intervening levels of management between the Director and front-line supervisors.

The streamlined Districts included Aberdeen, Albuquerque, Augusta, Boise, Burlington, Cheyenne, Fargo, Helena, Portsmouth, Providence, Salt Lake City, and Wilmington. "Prime" Districts were established to provide resource management services for the streamlined districts.

DECEMBER 31, 1978 Service centers implemented a Compliance Division which brought together the Collection, Criminal Investigation, and Exam activities assigned to service centers. Full implementation of this concept was completed by July 1, 1979.

1978 Due to lack of Congressional funding and support, the IRS cancelled plans to upgrade its automated processing systems, known as the Tax Administration System (TAS). In its place, the IRS launched the Equipment Replacement and Enhancement Program (EREP) to modernize its data processing system. This program was eventually pared back to become the Equipment Replacement Program (ERP), focusing solely on replacement of aging equipment.

1978 The work of the Refund Litigation Division in Chief Counsel was decentralized to the field offices.

1978 The IRS installed a Remittance Processing System (RPS) and an Omnisort mail sorting system in all service centers. This system automated the sorting and opening of incoming tax returns and handled 22,000 pieces of mail per hour with a 98 percent accuracy rate. In contrast, the top speed of the manual sort process had been 1,200 pieces per hour.

1978 The Revenue Act of 1978 included changes in employee benefit plans; introduced the concept of simplified employee pension plans; repealed the alternative capital gains tax; allowed a one-time exclusion for the sale of principal residence for those over age 55.

1978 The IRS undertook its first examination of the economic, social, and behavioral factors that affected taxpayer compliance.

1978 The Energy Tax Act of 1978 provided tax credits for energy conservation and renewable energy expenditures on residences. It also included a business energy investment tax credit.

1978 The Service published "The Collection Process (Employment Tax Accounts)," a booklet explaining the rights and duties of business taxpayers and the IRS in the collection of employment taxes. The publication was sent to business taxpayers with their second delinquency notice or delivered by





a Collection representative on initial contact.

1978 The IRS began matching all W-2s, 1099, and 1087 documents submitted on magnetic media as well as a sampling of 1099s and 1087s submitted on paper.

1978 The IRS established the Tax Counseling for the Elderly (TCE) program to assist taxpayers age 60 or over.

1978 Based on a recommendation from the General Accounting Office, the IRS established a task force to improve and simplify tax forms. The Task Force consisted of the Commissioner, the Deputy Commissioner, and several assistant commissioners.

JANUARY 1979 The IRS established a comprehensive program to identify illegal tax protester schemes and to take appropriate action through examination, criminal investigation, and collection.

FEBRUARY 1979 The IRS established a study group to recommend a compliance program to identify and correct questionable W-4 forms. The Commissioner approved the study group's recommendations in June 1979.

MARCH 1979 The IRS established an Automatic Data Processing (ADP) Policy Resource Board.

MAY 1979 The IRS participated in the Thirteenth General Assembly of the Inter-American Center of Tax Administrators (CIAT) in Quito, Ecuador.

AUGUST 1979 The IRS released a report titled, "Estimates of Income Unreported on Individual Income Tax Returns," marking the first effort to measure unreported individual income. The report showed that the "legal" tax gap was a far more serious problem than had previously been thought.

OCTOBER 1, 1979 The Bankruptcy Reform Act of 1978 became effective. This law required special handling of tax returns for taxpayers who had declared bankruptcy.

OCTOBER 1979 The IRS expanded the Problem Resolution Program to include all 10 service centers.

1979 The IRS began to receive Form W-2 data on magnetic tape. Reporting on magnetic tape remained voluntary until 1982.

1979 The Equipment Replacement and Enhancement Program (EREP) was scaled down and limited to replacing aging equipment and retitled the Equipment Replacement Program (ERP). ERP contained three major programs— 1) Service Center Replacement System (SCRS), 2) Master File Replacement System (MFRS); and 3) the Microfilm Replacement System (MRS).

1979 The position of Deputy Assistant Commissioner (Data Services) was established with Joseph E. Bishop appointed to this position.





1979 The IRS established the position of Assistant to the Commissioner (Equal Opportunity) to give emphasis to equal opportunity and affirmative action efforts.

1979 The National Tax Foundation estimated that the average American worked one hour and 48 minutes each work day to pay his or her federal taxes— unchanged from 10 years earlier.





*The advent of electronic filing was one of the great success stories of the tax modernization efforts of the 1980s.*

*1980 - 1986*

TAX REFORM AND PROCESSING NIGHTMARES:  
THE IRS STRUGGLES WITH  
THE INCREASING PACE OF CHANGE



Faced with the limitation of only replacing rather than upgrading its aging computer systems, the IRS implemented a major new program known as the Service Center Replacement System in 1985. Unfortunately, insufficient computer capacity resulted in a system unable to keep pace with processing requirements. The 1985 filing season quickly became known as the “worst filing season in IRS history.” Despite the agony of this troublesome year, the increased attention to IRS computer systems that resulted enabled the agency to move forward with new plans for computer upgrades.



JANUARY 4, 1980 Commissioner Kurtz created a Taxpayer Ombudsman in the National Office to supervise all Problem Resolution functions and to represent taxpayer interests. The Ombudsman reported directly to the Deputy Commissioner and Commissioner.

JANUARY 14, 1980 Harold M. Browning was appointed as the first IRS Taxpayer Ombudsman.

FEBRUARY 1980 A Request for Proposal for the Service Center Replacement System (SCRS) was issued.

MARCH 1, 1980 The Crude Oil Windfall Profit Tax Act of 1980 became effective. This added a tax on crude oil and certain natural gas liquids produced from domestic oil and gas wells after this date.

MARCH 11, 1980 The IRS established a W-4 Program by issuing revised Employment Tax Regulations requiring employers to submit copies of W-4 forms filed on or after April 1, 1980 that claimed exemption for withholding when wages were expected to exceed \$200 per week or for those who claimed more than of nine exemptions.

JUNE 1, 1980 Authority for disclosure of tax returns and return information to federal agencies for use in non-tax criminal investigations was delegated to field offices to improve the timeliness of disclosure services.

JUNE 26, 1980 Commissioner Kurtz was elected president of the Inter-American Center of Tax Administrators (CIAT) during its 14th General Assembly in Washington, D.C.

JULY 1980 The IRS began an effort to review, revise, and reformat all computer-generated correspondence in response to concern about its clarity.

OCTOBER 31, 1980 Jerome Kurtz resigned as Commissioner.

1980 The IRS initiated a new method to group individual returns for examination selection purposes. Total Positive Income (TPI) replaced the previous Adjusted Gross Income (AGI) while Total Gross Receipts (TGR) was the new method employed for business tax returns.

1980 The IRS began to convert the 1500 CDC and Honeywell assembly language computer programs in service centers to the high-level computer language COBOL.

1980 The responsibility of the IRS to collect delinquent child support payments was extended to non-Aid to Families with Dependent Children (AFDC) families.

1980 The Data Communications Processing System (DPCS), a UNIVAC 90/40 computer used as a front-end processor for IDRS, was installed nationwide.





1980 The IRS established the Art Print Panel, a new advisory group to provide advice on the valuation of art prints in an effort to cope with abusive tax shelters that used inflated appraisals of art print publishing ventures.

1980 The IRS replaced its alcoholism program with a broadly based employee assistance program.

1980 The IRS established a Tax Systems Division to create guidelines for systems development; introduce procedures for structured analysis, design, and programming; and place greater emphasis on the use of high level computer programming language.

1980 The Chief Counsel established a special trial attorney program.

1980 The Installment Sales Revision Act of 1980 was passed and provided major changes in the law regarding the installment method of accounting.

JANUARY 26, 1981 A research project began at the Fresno Service Center to determine the feasibility of imaging tax returns on optical laser disks. The initial delivery of hardware occurred in December 1985. The IRS also issued a feasibility study recommending a pilot test of optical character recognition equipment to process federal tax deposits.

MARCH 14, 1981 Roscoe L. Egger, Jr. became Commissioner.

JUNE 12, 1981 The IRS awarded a contract to Sperry Univac, Inc., for 11 Univac 1100-82 computer systems for the Service Center Replacement System (SCRS) program.

JUNE 1981 William E. Williams retired as Deputy Commissioner.

AUGUST 13, 1981 Congress enacted the Economic Recovery Tax Act of 1981 (ERISA). This act provided a large tax cut, reducing individual income tax rates. This act provided tax relief for two-earner married couples and increased the deductible limits for contributions to Individual Retirement Accounts.

AUGUST 24, 1981 The Houston District Office was established and the Austin District Office was realigned.

DECEMBER 1981 The Commissioner announced a reorganization of the National Office in which the Office of the Assistant Commissioner (Technical) was abolished and the Individual Tax and Corporation Tax Divisions were moved from the Technical area to the Office of the Chief Counsel. The Appeals Division was moved from the Compliance area to the Office of the Chief Counsel.

DECEMBER 1981 James Owens was appointed Deputy Commissioner.

1981 The IRS developed the first editions of the IRS strategic plan and the research plan.

1981 The tax tables were expanded to include \$50 intervals for all taxable incomes between \$2,000 and \$49,999.







1981 The Omnibus Reconciliation Act of 1981 required the IRS to collect delinquent child and spousal support payments on an expanded basis by offsetting income tax refunds.

1981 The IRS began to use a new system—total positive income (TPI) and total gross receipts (TGR)—to group individual returns for examination. This replaced the use of adjusted gross income (AGI).

JANUARY 8, 1982 The Treasury Department announced that it was unable to support the legal authority of IRS enforcement of public policy in denying tax exemption to racially discriminatory private schools. Subsequently, the U.S. Court of Appeals for the District of Columbia enjoined the IRS from granting or restoring exempt status to any racially discriminatory private school, thus precluding the execution of this policy change.

JANUARY 11, 1982 IRS underwent a major reorganization in which Treasury Department Order 150-95 authorized changes announced in December 1981. This reorganization also provided the Commissioner with line supervisory authority over the Chief Counsel, creating a situation in which the Commissioner and the Treasury Department General Counsel shared supervision of the Chief Counsel. The Chief Counsel was delegated line supervisory authority over the Appeals function by the Commissioner.

The positions of Deputy Chief Counsel (General); Deputy Chief

Counsel (Technical); and Deputy Chief Counsel (Litigation) were abolished. A new management level was created in the National Office in the positions of Associate Commissioner (Operations) and Associate Commissioner (Policy and Management) and the Associate Commissioner (Data Processing).

This reorganization abolished the positions of Assistant and Deputy Assistant Commissioner (Compliance); Director and Assistant Director, Examination Division; Director and Assistant Director, Collection Division; Director and Assistant Director, Criminal Investigation Division. The reorganization established the positions of Assistant and Deputy Assistant Commissioner (Examination); Assistant and Deputy Assistant Commissioner (Collection); Assistant and Deputy Assistant Commissioner (Criminal Investigation). The Office of the Assistant Commissioner (Planning and Research) was abolished.

MARCH 21, 1982 The Office of International Operations was redesignated the Foreign Operations District and placed under the jurisdiction of the Mid-Atlantic Region.

MARCH 1982 The IRS began installing new computer systems to replace aging equipment in the service centers and the National Computer Center. The first Univac 1100-82 was installed in the Memphis Service Center for pilot testing and was operational by October. The contract was awarded for the Microfilm Replacement System.





JUNE 28, 1982 The Director of Practice was transferred from the Department of the Treasury's Office of General Counsel to the IRS Assistant Commissioner (Human Resources).

JUNE 1982 The IRS awarded a contract for a NAS 9060 (Hitachi) computer under the Master File Replacement System to replace six IBM 360/65s and an IBM 370 at the National Computer Center.

AUGUST 1982 The IRS initiated a pilot test of optical character recognition (OCR) equipment in the Cincinnati Service Center to measure and project its performance in processing FTDs.

AUGUST 1982 A Request for Proposal was issued for a Distributed Input System (DIS) to replace the Direct Data Entry System (DDDES).

SEPTEMBER 3, 1982 Congress enacted the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) with the intention of raising revenues, closing statutory loopholes, and ensuring compliance with the tax laws. This act added procedural aspects to some of the civil penalty provisions and expanded information reporting and penalty provisions.

DECEMBER 7, 1982 Authority to manage the Information Returns program was given to the Assistant Commissioner (Examination) by the Planning Council.

1982 Project Offices were established for the Automated Collection System (ACS), the Automated Exam System (AES), the Distributed Input System (DIS), and Taxpayer Processing System Redesign (TPSR). The latter was the predecessor of the Assistant Commissioner (Tax System Redesign).

1982 The Assistant Commissioner (Data Services) was abolished and the Assistant Commissioner (Computer Services) was established. The Associate Commissioner (Data Processing) position was established and M. Eddie Heironimus was selected for this position in January 1983.

1982 Joseph E. Bishop succeeded Donald J. Porter as Assistant Commissioner (Data Services).

1982 Congress authorized the Secretary of the Treasury to mandate magnetic media reporting. This was a major step in developing a matching program in which virtually all documents could be processed.

1982 The IRS began to offset individual tax refunds to satisfy delinquent child and spousal support obligations as required by the Omnibus Reconciliation Act of 1981.

1982 The IRS established the position of Assistant to the Commissioner for Legislative Liaison to focus on the relationship between IRS and Congress.

JANUARY 23, 1983 All Assistant Regional Commissioner (Taxpayer Service and Returns Processing) positions were reassigned to the





position of Assistant Regional Commissioner (Data Processing).

MARCH 15, 1983 The Foreign Operations District was established in the Mid-Atlantic Region.

APRIL 18, 1983 The IRS and the Department of Labor signed a revised coordinated compliance agreement to improve coordination between the two agencies.

MAY 24, 1983 The Supreme Court issued its decision in the consolidated cases of *Bob Jones University v. U.S.* and *Goldsboro Christian Schools Inc. v. U.S.* in which it ruled that educational institutions practicing racial discrimination based on religious beliefs were not charitable organizations in the common-law sense and, therefore, were not entitled to federal income tax exemption.

MAY 1983 A successful pilot test of optical character recognition (OCR) processing of federal tax deposits (FTDs) in the Cincinnati Service Center resulted in acquiring this system for other service centers.

JUNE 1983 The IRS awarded a contract to Motorola Four Phase Systems, Inc., for the Distributed Input System. The equipment was installed in the service centers by August.

OCTOBER 1, 1983 The Sacramento, San Jose, and Laguna Niguel District Offices were established while the Los Angeles and San Francisco District Offices were realigned.

NOVEMBER 1983 The first IRS Research Conference was held with the theme, "Tax Administration Research Strategies."

1983 Congress passed the Interest and Dividend Tax Compliance Act of 1983.

1983 For the first time, the 1040 tax form included a space for taxpayers to make voluntary contributions to reduce the public debt.

1983 Seven older master file computers at the National Computer Center were replaced with one state of the art computer.

1983 The Tax Processing System Redesign Staff was established to begin work on acquisition of a new tax processing system to satisfy the needs of the IRS into the next century.

1983 The IRS tested a pilot Automated Collection System and placed it in operation in four district offices (St. Louis, Chicago, Indianapolis, and Nashville) and two service centers (Kansas City and Memphis).

1983 The Microfilm Replacement System (MRS) and Service Center Replacement System (SCRS) equipment was installed at all service centers as Phase 1 of the Equipment Replacement Program was completed.

1983 The IRS went nationwide with a new telephone assistance service, Tele-Tax, which offered tapes on 140 topics for taxpayers with push-button phones. A similar sys-





tem for taxpayers with rotary dial phones, Tax-Dial, was also tested this year.

1983 Thomas J. Laycock became the Assistant Commissioner (Computer Services), succeeding Joseph Bishop who was selected as Deputy Assistant Secretary of the Treasury (Programs and Resources Management).

1983 The IRS participated in the Seventeenth General Assembly of the Inter-American Center for Tax Administrators' (CIAT) in Curacao, Netherlands Antilles.

JANUARY 1, 1984 Brokers and barter exchanges were required to use magnetic media in reporting transactions to the IRS, as enacted in the Interest and Dividend Compliance Act of 1983.

JANUARY 1984 President Reagan stated in his State of the Union address, "Let us go forward with an historic reform for fairness, simplicity, and incentives for growth. I am asking [Treasury] Secretary Don Regan for a plan for action to simplify the entire tax code so all taxpayers, big and small, are treated more fairly."

MAY 31, 1984 The IRS awarded a contract for \$3.7 million to Integrated Automation of Berkeley, California, for an optical disk research test system to be installed at the Fresno Service Center and to be known as the Files Archival Image Storage and Retrieval (FAISR) system.

MAY 1984 The IRS published its first Strategic Business Plan.

OCTOBER 1, 1984 The IRS realigned the boundaries of its regional offices as follows: the Helena District was transferred from the Western to the Midwest Region; the Salt Lake City and Phoenix Districts were transferred from the Western Region to the Southwest Region; the Little Rock and New Orleans Districts were transferred from the Southwest Region to the Southeast Region; and the Ogden Service Center was transferred from the Western Region to the Southwest Region.

NOVEMBER 27, 1984 Secretary of the Treasury Don Regan presented the administration with a report titled "Tax Reform for Fairness, Simplicity, and Economic Growth," otherwise known as "Treasury 1." This report recommended a three-tiered tax rate schedule of 15, 25, and 35 percent, increased personal exemptions, and abolition of most deductions under the existing code. Many of the report's recommendations, including capital gains reform, became law with enactment of the Tax Reform Act of 1986.

1984 The Tax Processing System Redesign Staff changed their name to Tax System Redesign to encompass a wider range of activities, including tax administration, management information, and administrative systems.

1984 The Ogden Service Center became the first IRS component to adopt an aggressive quality improve-





ment approach and devote full-time resources for quality improvement projects.

1984 Service centers assumed responsibility for most collection cases up to and including issuance of final notices of intent to levy and receipt and posting of payments received in response to the notices as the Automated Collection System (ACS) became fully operational nationwide at 21 call sites and all service centers.

1984 Congress passed the Deficit Reduction Act of 1984. This act was intended to reduce tax shelter activity; to reform taxation of international income; and improve the administration and efficiency of tax administration. This act required certain tax shelters to register with the IRS and enacted new provisions on the deductibility of employer contributions to welfare benefit funds for employees and new requirements for nondiscriminatory benefits to retain exempt status. It also marked the beginning of the Form 8300 program, which dealt with cash payments received in any trade or business over \$10,000.

1984 A Form 990 advisory committee was established with membership consisting of assistant state attorneys general, private sector representatives, and IRS officials.

1984 The Tax Reform Act of 1984 was intended to raise about \$50 billion in revenue; it revamped taxation of life insurance companies and alimony payments; and made "perks" taxable at their fair market value.

1984 The Detroit Data Center was given responsibility to process currency transaction reports.

1984 The IRS established the Strategic Management System, incorporating the existing long-range and information systems plan. A key component of the Strategic Management System was the Strategic Plan.

1984 The IRS participated in the eighteenth General Assembly of the Inter-American Center for Tax Administrators' (CIAT) in Cartagena, Colombia.

1984 IRS processed Federal Tax Deposits and five million 1983 Forms 1040EZ using Optical Character Recognition technology. Multi-font scanners were installed at three service centers to process information documents.

1984 Phases I and II of the Service Center Replacement System (SCRS) were completed.

JANUARY 1985 The IRS sponsored its second research conference with the theme, "Tax Administration Research."

MARCH 3, 1985 The IRS District in Nevada moved from Reno to Las Vegas.

AUGUST 12, 1985 The IRS awarded a limited competition contract to Sperry Corporation for 18 additional CPUs and associated peripherals.







OCTOBER 1985 The Richmond Centralized Inventory Distribution Site (CIDS) became operational.

OCTOBER 1985 An outside management consulting firm was retained to assist in a review of IRS' organizational structure and programs for international tax administration.

NOVEMBER 14, 1985 Representative George W. Gekas of Pennsylvania introduced a bill to stagger deadlines for filing federal income tax returns so that millions of documents would not flood the IRS at one time during the year.

NOVEMBER 1985 The IRS sponsored its third research conference with the theme "Trends Impacting on Tax Administration." This was the first research conference to include participants from the private sector.

1985 Phase IV programs of the Service Center Replacement System (SCRS) were implemented. Start-up problems contributed to a "nightmare" filing season for the IRS. The IRS paid out \$15.5 million in additional interest payments for late refunds and incurred additional costs of over \$64 million.

1985 The IRS participated in the nineteenth General Assembly of the Inter-American Center for Tax Administrators in Port-au-Prince, Haiti.

1985 The Distributed Input System (DIS) and the IDRS Replacement, Phase I, were completed.

1985 The IRS established a User Assistance and Computer Capacity Management Office (UACCMO).

1985 The Tax System Redesign Office was elevated from project status to the Assistant Commissioner level under the Associate Commissioner (Data Processing).

JANUARY 17, 1986 The National Office Command Center began operations.

JANUARY 24, 1986 The first successful transmission of tax return data from a preparer to the IRS through the new electronic filing system was completed.

JANUARY 1986 The Commissioner's Quality Council was established.

FEBRUARY 1986 The Department of the Treasury did not approve an IRS request for additional computer equipment for the tax processing system asserting that it would be an expensive equipment acquisition that was not tied to any well thought-out solution to IRS' systems problems.

FEBRUARY 27, 1986 The Office of the Assistant Commissioner (International) was established and the Foreign Operations District of the Mid-Atlantic Region was abolished. This combined the international activities of the IRS into one functional area, under the authority of the Associate Commissioner (Operations).

APRIL 21, 1986 The IRS submitted a new plan for three-phase development of Tax System Redesign to Treasury, which required the Assis-





tant Commissioner (Tax Systems Redesign) to assume responsibility for planning of all tax processing and tax information initiatives.

APRIL 30, 1986 Roscoe L Egger, Jr. resigned as Commissioner.

MAY 16, 1986 The Office of the Assistant Commissioner (International) became operational.

MAY 30, 1986 The Treasury Department announced its support of Tax System Redesign.

MAY 1986 The IRS issued a long-range plan as a forerunner to a strategic business plan.

JUNE 6, 1986 The Ft. Lauderdale District was established.

JULY 30, 1986 The Office of the Assistant Commissioner (Support and Services) was abolished. The Office of the Assistant Commissioner (Human Resources Management and Support) was created.

AUGUST 4, 1986 Lawrence B. Gibbs of Texas became Commissioner.

AUGUST 1986 The IRS began testing the use of optical disk equipment to store and retrieve tax return documents using laser technology, known as the Files Archival and Image Storage Retrieval (FAISR) test, at the Fresno Service Center.

OCTOBER 21, 1986 Congress passed the Omnibus Reconciliation Act of 1986.

OCTOBER 22, 1986 President Reagan signed the Tax Reform Act of 1986 (TRA-86). This act was the culmination of over 30 months of effort by both the executive and legislative branches to reform the existing tax code and redesignated the Internal Revenue Code of 1954 the Internal Revenue Code of 1986.

This marked the most significant piece of tax legislation enacted in over 30 years with over 300 provisions and would take three years to implement. The number of tax brackets was reduced to five with rates ranging from 11 percent to 38.5 percent.

In 1988, the number of brackets was again reduced to two— 15 percent and 28 percent; personal and dependent exemptions were increased; the long term net capital gain deduction was excluded; and corporate tax brackets were reduced from 5 to 3.

OCTOBER 1986 The Bloomington Centralized Information Distribution Site (CIDS) became operational.

OCTOBER 1986 The IRS established an artificial intelligence laboratory as part of an initiative to explore potential applications of new technologies to tax processing.

OCTOBER 1986 The IRS put forth its goals for an evolutionary approach to tax systems redesign, stating that improvements would be made in incremental steps rather than a single sweeping change.

NOVEMBER 19-21 1986 The IRS sponsored its fourth Research Conference.





1986 The Office of the Associate Chief Counsel (International) was established.

1986 The compliance functions of the Austin Service Center were broken off into a new "Compliance Center" as a test.

1986 The IRS sponsored the first case of leave sharing in the Federal government involving two revenue agents from the IRS Ft Lauderdale District. Special legislation in 1986 (P.L. 99-500) enabled the IRS couple to receive nearly six months of donated leave from co-workers.

1986 The IRS awarded a contract for the Communications Replacement System (CRS) to Sysorex Information Systems, Inc.

1986 The Office of Disaster Recovery was created in the Assistant Commissioner (Computer Services) area.

1986 In support of the Automated Exam System (AES), the IRS contracted for up to 18,000 portable computers, designed to put more than 40 IRS-designed applications at the fingertips of revenue agents.

1986 The name of the Software Division in the Assistant Commissioner (Computer Services) was changed to the Tax Processing Systems Division and the name of the Management Systems Division was changed to the Compliance Processing Systems Division. Daniel N. Capozzoli succeeded Thomas J. Laycock as Assistant Commissioner (Computer Services).







*In 1992 the IRS welcomed Shirley Peterson as the first female commissioner in the history of tax administration in the United States.*

*1987 - 1992*

FOCUS ON QUALITY AND TAXPAYER SERVICE:  
PUTTING THE “SERVICE”  
BACK INTO THE IRS



The IRS headed towards the 21st century with a new focus on quality service and a philosophy embodied in the “Compliance 2000” initiative. Efforts to improve IRS communications, both internally and externally, received increased attention in these years as the agency moved in a new direction aimed at increasing taxpayer compliance through awareness of the tax laws coupled with enforcement when necessary.





FEBRUARY 1987 The first pilot child care center for IRS employees was opened in Andover, Massachusetts.

MARCH 12, 1987 The Office of Management and Budget approved a new, alternate W-4A withholding certificate.

APRIL 6, 1987 Anthony V. Langone became the new Assistant Commissioner for Criminal Investigation.

APRIL-AUGUST 1987 The GAO and the IRS conducted a joint management review of IRS operations. The final report was issued in October 1988.

MAY 18, 1987 The first advance draft copies of 1987 tax forms were released for implementation of aspects of the tax reform act of 1986 in the 1987 tax year.

MAY 21, 1987 The Office of Chief Counsel was reorganized with positions for a Deputy Chief Counsel, Management and Operations; Deputy Chief Counsel, Policy and Legal Programs; and an Associate Chief Counsel, Technical and International.

JUNE 1987 IRS announced the establishment of a Commissioner's Exempt Organizations Advisory Group to advise on issues and problems relating to exempt organizations.

JULY 1, 1987 The Bureau of Alcohol, Tobacco, and Firearms assumed responsibility for filing alcohol, tobacco, and firearms returns.

JULY 2, 1987 Commissioner Gibbs announced the reorganization of the National Office. The major part of this reorganization created the position of Senior Deputy Commissioner and two Deputy Commissioners, replacing the previous system of one Deputy Commissioner and three Associate Commissioners. An Assistant Commissioner for Taxpayer Service was also created. Michael J. Murphy was appointed as Senior Deputy Commissioner.

JULY 15, 1987 Commissioner Gibbs announced the selection of Charles H. Brennan as Deputy Commissioner for Operations and John L. Wedick as Deputy Commissioner for Planning and Resources.

JULY 28, 1987 Commissioner Gibbs announced that the IRS had been selected by the Ad Council for a nationwide public service advertising campaign.

AUGUST 30, 1987 The Assistant Commissioner (Information Systems Development) was established, replacing the Assistant Commissioner (Tax Systems Redesign).

AUGUST 1987 The reorganization of the National Office took effect and created three new executive level positions—the Senior Deputy Commissioner, the Deputy Commissioner (Operations), and the Deputy Commissioner (Planning and Research). The former structure was abolished, along with the positions of Deputy Commissioner and the three Associate Commissioners.

The reorganization also shifted oversight responsibility for the NCC





to the Assistant Commissioner (Computer Services) and a new Assistant Commissioner (Taxpayer Service and Returns Processing) was established. All Regional Commissioners and Assistant Commissioners now reported to the Deputy Commissioners.

SEPTEMBER 10, 1987 IRS held its first "IRS Taxpayer Service Teleconference," a two-hour program taped at the U.S. Chamber of Commerce headquarters in Washington, D.C., and beamed to more than 60 locations across the United States. The panel was composed of Commissioner Gibbs, the Assistant Commissioner for Taxpayer Service and Returns Processing, and the Director of the Taxpayer Service Division.

SEPTEMBER 16, 1987 The IRS sponsored the first meeting of the Commissioner's Exempt Organizations Advisory Group. The 18 member group was chaired by former Commissioner Donald Alexander.

OCTOBER 27, 1987 The National Treasury Employees Union and IRS officials joined hands at a press conference to announce the creation of a joint quality improvement process within the IRS. This accord was a first in federal labor-management relations.

NOVEMBER 9, 1987 David G. Blattner became the new Assistant Commissioner for Examination.

NOVEMBER 1987 The Commissioner established a task force to study the penalty system and make recommendations.

DECEMBER 6, 1987 Damon O. Holmes assumed the position of Taxpayer Ombusman, serving as the taxpayer's advocate in examining IRS policies and suggesting changes to policies and procedures that created problems for taxpayers or resulted in inequitable taxpayer treatment.

DECEMBER 9, 1987 John D. Johnson became the new Assistant Commissioner (Planning, Finance, and Research).

DECEMBER 22, 1987 Congress passed the Omnibus Budget Reconciliation Act of 1987.

DECEMBER 1987 The first meeting of the National Quality Council was held.

1987 The Revenue Act of 1987 was designed to raise \$9 billion in new taxes and contained approximately 200 amendments to the Internal Revenue Code with a focus on business tax rules.

1987 The Commissioner's Advisory Group charter was revised to include language about the IRS' commitment to the CAG members.

1987 The IRS added a Strategic Business Plan to its Strategic Management System to help strengthen the link between planning and budgeting. The IRS also initiated an annual two-phased strategic business planning process under the direction of the Assistant Commissioner (Planning, Finance, and Research).





**JANUARY 6, 1988** The IRS announced a new public service advertising campaign using the slogan "Make Your Taxes Less Taxing." The campaign was designed by the New York advertising firm of McCann-Erickson with assistance from the Ad Council.

**MARCH 2, 1988** The IRS announced the results of a nationwide collection program aimed at identifying employers who misclassified employees as "independent contractors."

**MARCH 16, 1988** Teddy R. Kern became the new Assistant Commissioner for Inspection.

**MARCH 24, 1988** Donald E. Bergherm became the new Assistant Commissioner for International.

**APRIL 1, 1988** Alvin H. Kolak became the new Assistant Commissioner for Collection.

**MAY 19, 1988** Bruce V. Milburn became the new Assistant Commissioner for Criminal Investigation.

**JUNE 30, 1988** Legislative authority for the offset of non-child support funds expired on this date. However, the program was later reauthorized and extended through January 1994 by the Family Support Act of 1988.

**SEPTEMBER 1988** An Oregon man became the first person convicted of filing fictitious claims for tax refunds through the new electronic filing system.

**OCTOBER 1, 1988** The Chief Counsel reorganized into five "functionally integrated organizations," including 1) Financial Institutions and Products, 2) Corporate, 3) Passthroughs and Special Industries, 4) Income Tax and Accounting, and 5) Employee Benefits and Exempt Organizations.

**NOVEMBER 1, 1988** The IRS published a four-page guide for taxpayers titled, "Your Rights As A Taxpayer," also known as Publication 1.

**NOVEMBER 10, 1988** Congress enacted the Technical and Miscellaneous Revenue Act of 1988 which included a "Taxpayer's Bill of Rights," requiring the IRS to inform taxpayers fully of their rights.

**1988** During this filing season, taxpayers were required to provide the social security number for all dependents age 5 and over.

**1988** The IRS introduced a revised "Understanding Taxes" program for high school students using computer software and video programs in the instructional materials.

**1988** A Telecommunications Strategy Task Force was created under the Assistant Commissioner (Information Systems Development).

**JANUARY 23, 1989** The IRS published a new strategic initiative under the title, "Improving Awareness of Ethical, Integrity, and Conduct Issues."

**FEBRUARY 17, 1989** The National Office opened a Child Development Center. The IRS was the first fed-





eral agency to implement a child care program throughout its entire organization.

MARCH 4, 1989 Lawrence Gibbs resigned as Commissioner to return to private law practice with the firm Johnson and Gibbs.

APRIL 10, 1989 Alvin H. Kolak became the first Assistant to the Commissioner for Quality.

JUNE 7, 1989 Robert T. Johnson became Assistant Commissioner for Human Resources Management and Support.

JUNE 20, 1989 Robert A. LeBaube assumed the newly created position of Assistant Commissioner for Taxpayer Service. Raymond P. Keenan became the new Assistant Commissioner for Collection.

JULY 1, 1989 Several provisions of the Taxpayer's Bill of Rights took effect, including the extension of the time period between the IRS' notice of intent to levy and issuance of the levy from 10 to 30 days and the institution of a 21 day holding period for banks prior to the issuing of a levy.

JULY 5, 1989 Fred T. Goldberg, Jr. was sworn in as Commissioner. The Senate approved Goldberg's nomination on June 23, 1989.

JULY 7, 1989 As of this date, taxpayers had the right to appeal the filing of a notice of tax lien if they believed it was erroneously filed by the IRS, under provisions of the Taxpayer's Bill of Rights.

JULY 25-27, 1989 The House Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, chaired by Representative Doug Barnard, Jr., of Georgia, conducted hearings into misconduct by senior IRS officials.

JULY 31, 1989 Charles J. Peoples became the new Assistant Commissioner (Returns Processing).

JULY 1989 An interagency agreement between the Department of Labor, the Office of Management and Budget, and the IRS resulted in significant changes in the processing of employee plan returns. The agreement coincided with the centralized processing of returns in the Memphis, Andover, Atlanta, and Brookhaven Service Centers.

AUGUST 1989 The IRS established an Inspection hotline for employees to report suspected cases of fraud, waste, and abuse.

OCTOBER 11, 1989 Regina M. Deanehan became the new Assistant Commissioner (Planning, Finance, and Resources).

OCTOBER 17, 1989 Commissioner Goldberg announced the reorganization of the National Office to focus efforts on tax systems modernization and provide greater accountability for financial management.

DECEMBER 7, 1989 Inar Morics became the new Assistant Commissioner (Criminal Investigation).





DECEMBER 18, 1989 The IRS established a position for a Chief Information Officer. The Assistant Commissioner for Computer Services was redesignated as the Assistant Chief Information Officer-Information Systems Management and the Assistant Commissioner for Information Systems Development was redesignated as the Assistant Chief Information Officer-Information Systems Development.

DECEMBER 20, 1989 John D. Johnson became the Deputy Commissioner for Planning and Finance/Chief Financial Officer.

DECEMBER 1989 The IRS began prototyping the Automated Underreporter Program at the Ogden Service Center in an effort to replace the manual process of screening cases initially identified from matching income and deduction documents received from third party payers against tax returns.

1989 By this year, taxpayers in 36 states could file their taxes electronically.

1989 The National Tax Foundation estimated that the average American worked one hour and 47 minutes each day to pay his or her tax bill—one minute less than 10 years earlier.

JANUARY 10, 1990 Commissioner Goldberg appointed a group of seven experts, including tax practitioners, government officials, and academicians, to serve on the "Commissioner's Review Panel on Integrity Controls," to evaluate IRS

efforts to improve its record on integrity in recent months. The Panel was chaired by James P. Holden and became known as the "Holden Committee." The Panel issued its final report in October 1990.

JANUARY 30, 1990 Abraham N.M. Shashy, Jr. was confirmed as Chief Counsel.

JANUARY 1990 Commissioner Goldberg released an interim report on "Integrity Within the IRS."

JANUARY 1990 Prior to this date the Internal Security Division of the Assistant Commissioner (Inspection) served as the sole investigator of all misconduct allegations within the Service. During this month, the Treasury Inspector General began investigating instances of alleged misconduct among executives and managers of the IRS.

FEBRUARY 22, 1990 Mark D. Cox became the Assistant Chief Information Officer for Information Systems Development.

APRIL 12, 1990 The IRS announced the selection of Henry H. Philcox as the organization's first Chief Information Officer.

APRIL 12, 1990 The IRS announced the signing of a contract with the National Academy of Science for a two-year independent review of the information systems management effort to upgrade the Service's automated capabilities.







APRIL 23, 1990 C. Morgan Kinghorn became the first individual to hold the newly created position of Assistant Commissioner for Finance/Controller.

APRIL 25, 1990 The title of the position of Assistant Commissioner for Inspection was changed to Chief Inspector.

APRIL 30, 1990 The Supreme Court declined to review an appellate court's determination that abortion rights activists had no legal standing to challenge the federal tax exemption of the Roman Catholic Church. This concluded litigation that had extended nearly 10 years.

JUNE 1, 1990 The Office of Management and Budget selected the Cincinnati Service Center as one of three Federal organizations to receive the 1990 Quality Improvement Prototype Awards.

JULY 2, 1990 Philip G. Brand became the new Assistant Commissioner for Taxpayer Service with the retirement of Robert A. LeBaube.

AUGUST 15, 1990 The IRS began accepting contributions for a voluntary leave bank program for all employees.

AUGUST 20, 1990 Walter A. Hutton, Jr. became the new Assistant Chief Information Officer for Information Systems Management.

AUGUST 1990 Regina M. Deanehan replaced Donald E. Bergherm as Assistant Commissioner for International.

SEPTEMBER 4, 1990 The IRS announced creation of a new position for an Executive Director of the Coordinated Examination Program. John J. Monaco was appointed to this position.

SEPTEMBER 9, 1990 Robert F. Hilgen became Assistant Commissioner for Planning and Research.

SEPTEMBER 19, 1990 The IRS celebrated the 20th anniversary of its volunteer tax assistance programs.

OCTOBER 4, 1990 The House of Representatives Committee on Government Operations released its final report on the investigations of the IRS over the past two years, titled "Misconduct by Senior Managers in the Internal Revenue Service."

OCTOBER 25, 1990 The IRS created the new position of Assistant Commissioner for Procurement Services to set policy and perform contract administration, information systems acquisitions, quality assurance, and program review. This function was soon renamed the Assistant Commissioner for Procurement.

OCTOBER 1990 The IRS began a two-year conversion to a new personnel/payroll system known as the Treasury Integrated Management Information System (TIMIS), operated by the Department of Agriculture's National Finance Center in New Orleans.

NOVEMBER 15-16, 1990 The IRS sponsored its annual Research Conference with the theme "How Do We Affect Taxpayer Behavior? The





Case for Positive Incentives, Assistance or Enforcement.”

NOVEMBER 1990 The IRS established an Information Returns Programs Bulletin Board System which allowed payors to file 1099 forms electronically and provided employers with the latest IRS information.

DECEMBER 19, 1990 Treasury Department Order 150-02 officially redesignated senior management positions in the IRS: the Senior Deputy Commissioner became the Deputy Commissioner; the Deputy Commissioner for Operations became the Chief Operations Officer; the Deputy Commissioner for Planning and Resources/Chief Financial Officer became the Chief Financial Officer; the Assistant Chief Information Officer for Information Systems Development became the Assistant Commissioner for Information Systems Development; and the Assistant Chief Information Officer for Information Systems Management became the Assistant Commissioner for Information Systems Management.

DECEMBER 30, 1990 John E. Burke was selected to replace Robert Brauer as Assistant Commissioner for Employee Plans and Exempt Organizations.

DECEMBER 31, 1990 Charles H. Brennan was selected as the new Regional Commissioner for the Mid-Atlantic Region.

1990 This was the first year that taxpayers throughout the country could file their tax returns electroni-

cally as long as they expected a refund.

1990 The position of Assistant Commissioner for Human Resources Management and Support was redesignated the Assistant Commissioner for Human Resources and Support.

1990 Late in the year Congress repealed the supplemental Medicare catastrophic premium. Because the tax forms had already been printed, IRS advised taxpayers to ignore the lines referring to this surtax.

1990 The Family Support Act of 1988 required dependent and child care providers to provide their Taxpayer Identification Number (TIN) to any client who planned to take a credit, beginning with tax year 1989 with tax forms filed in 1990.

1990 Agricultural employers were required to withhold income tax from cash wages paid to farm workers under requirements of the Omnibus Budget Reconciliation Act of 1989.

1990 After extensive review, major changes were made in the Coordinated Examination Program, including creating an executive-level position to provide overall program direction.

1990 The 1040 form for this filing season included space to report retirement income and estimated tax payments.

1990 The IRS began implementing the On-Line Entity System





(OLE) as the first phase of the Corporate Files On-Line (CFOL) project, allowing immediate access to more than 350 million files of tax account data.

1990 The Automated Underreporter (AUR) Control System came on line during this year, relieving the problems of tracking approximately 9 million underreporter cases annually.

1990 A contract for the mainframe computer system for the Integrated Collection System (ICS) was awarded and prototype operations were established in the Birmingham and Dallas Districts.

1990 The IRS issued a new and simplified federal unemployment tax return, the 940EZ, which would be used by small businesses with uncomplicated tax situations and most household employers.

JANUARY 2, 1991 David G. Blattner was selected as the new Chief Operations Officer for the IRS.

JANUARY 14, 1991 In *Cheek v. U.S.*, the Supreme Court held that a criminal tax defendant's sincerely held beliefs about the federal tax system do not have to be "objectively reasonable" in order to negate the element of "willfulness" necessary for a conviction.

JANUARY 15, 1991 George O'Hanlon was selected as the new Assistant Commissioner for Examination.

JANUARY 15, 1991 The IRS introduced the new 1040EZ-1 form

which would allow taxpayers in a test area in Texas to file a four-question income tax form and have the IRS compute their taxes for 1990.

MARCH 25, 1991 Deputy Commissioner Michael Murphy received a National Public Service Award from the National Academy of Public Administration and the American Society for Public Administration in recognition of his efforts to promote the tax modernization and quality initiatives in the IRS.

MARCH 27, 1991 The Office of Chief Counsel announced a reorganization in an effort to provide better coordination between the National Office and field staff. Changes included redesignation of the Tax Litigation Division to the Field Services Division; elevation of Employee Benefits and Exempt Organizations to Associate Chief Counsel status; and creation of a position for a Spécial Chief Counsel, Large Case.

MARCH 1991 The IRS held its first National Information Reporting Forum to listen to concerns about information reporting requirements from tax practitioners.

APRIL 12, 1991 Joesph F. Kump assumed the new position of Accounts Receivable Executive Officer in the National Office.

MAY 13-17, 1991 The 25th annual meeting of the Inter-American Center of Tax Administrators (CIAT) was held in Washington, D.C., and hosted by the IRS.





**JUNE 3, 1991** After three years of effort, the IRS released its new 10-year, \$8 billion tax systems modernization plan to update the Service's information systems.

**JUNE 17, 1991** Judy K. Van Alfen was named Assistant Commissioner for Returns Processing, succeeding Charles Peoples, who moved to become Director of the Austin Service Center.

**JUNE 18, 1991** Gregory D. Rothwell was named as the first person to hold the new position of Assistant Commissioner for Procurement.

**NOVEMBER 14-15, 1991** The IRS hosted its annual Research Conference. The theme was "Closing the Tax Gap: Alternatives to Enforcement."

**NOVEMBER 18, 1991** The Assistant Commissioner (Human Resources and Support) renamed several of its divisions. The new titles included: Support and Services Division, the Labor Cost Analysis Division, and the Training and Development Division.

**DECEMBER 1, 1991** David Mader replaced Robert Johnson as Assistant Commissioner (Human Resources and Support).

**DECEMBER 4-5, 1991** The first meeting of the newly created Information Reporting Program Advisory Committee was held in Washington, D.C. This 16-member group of academicians, accountants, attorneys, business executives was formed to offer the IRS constructive observa-

tions on proposed policies and procedures.

**DECEMBER 5, 1991** The IRS announced the selection of Michael P. Dolan as the new Deputy Commissioner and of Philip Brand as the new Chief Financial Officer.

**DECEMBER 11, 1991** The IRS awarded a contract to provide integration support services for the tax systems modernization program to TRW, Inc.

**1991** The 1040A form was revised to allow wider use. Changes included the addition of lines to report pension and annuity income, taxable social security benefits, estimated tax payments, and the credit for the elderly.

**1991** The IRS created a new position for a Tax System Modernization Manager. Larry G. Westfall, former Director of the Austin Service Center, accepted this position.

**1991** A \$1.4 billion contract for the Treasury Multi-Users Acquisition Contract (TMAC) was awarded to AT & T. Under this contract, the IRS would receive up to 50,000 computer workstations as part of the overall Tax Systems Modernization effort, with a total cost estimate of \$8 billion.

**JANUARY 6, 1992** The IRS created a new Diagnostic Services Center in Beckley, West Virginia, headed by Raymond Keenan, to test system modernization and Compliance 2000 programs.





**JANUARY 13, 1992** The IRS Executive Committee announced its decision to retain the Criminal Investigation Division's current structure and to continue its focus on illegal income investigations despite alternative recommendations from a task force that had studied the Criminal Investigation function over the past year.

**FEBRUARY 2, 1992** Fred Goldberg left his position as Commissioner to become the Assistant Secretary of the Treasury for Tax Policy.

**February 3, 1992** Shirley D. Peterson, former Assistant Attorney General at the Justice Department's Tax Division, became the first female Commissioner of the Internal Revenue Service.

**MARCH 1992** Michael J. Murphy retired as Deputy Commissioner and became Executive Director of the Tax Executives Institute. Michael P. Dolan replaced Murphy as Deputy Commissioner.

**MARCH 1992** Phil Brand replaced John D. Johnson as Chief Financial Officer of the IRS, as Johnson moved to become the Southeast Regional Commissioner.

**MARCH 1992** Robert Wenzel replaced Raymond Keenan as Assistant Commissioner (Collection).

**APRIL 27, 1992** The IRS published a penalty policy statement putting forth the philosophy that penalties support the IRS mission only if they enhance voluntary compliance.

**MAY 12, 1992** President George

Bush announced his support for IRS efforts to simplify tax processing for small businesses by endorsing efforts to streamline payroll tax deposit rules beginning in 1993.

**MAY 20, 1992** The IRS announced the creation of a new position for a "Compliance 2000 Executive". Named to this position was Marshall V. Washburn whose primary responsibility would be to implement the Compliance 2000 strategy aimed at reducing the burden on taxpayers and increasing voluntary compliance by simplifying the tax system.

**MAY 28, 1992** The Ogden Service Center received the Presidential Award for Quality for its "service to customers and commitment to excellence."

**JUNE 1992** A federal arbitration board approved a proposed IRS policy to allow revenue officers to use registered pseudonyms to protect their identity against potentially violent taxpayers.

**JULY 1992** Budgetary restrictions compelled the IRS to decide not to participate in a new Public Transportation Incentive Program aimed at encouraging federal employees to use mass transportation to get to and from work. Because agencies were required to subsidize this program with existing financial resources, the IRS decided it could not afford to participate.

**AUGUST 1992** Hurricane Andrew struck the lower coast of Florida inflicting greater property damage than any other natural disaster in







American history. The IRS participated in relief efforts by staffing sites throughout the disaster relief area to assist taxpayers in applying for refunds, amending prior year returns, and determining casualty losses.

OCTOBER 23-24, 1992 The Association of Former IRS Executives held its first meeting. 1992 Various congressional proposals explored the feasibility of using the IRS to enforce child support obligations of non-custodial parents.

November 19-20, 1992 The IRS hosted its annual Research Conference. The theme was "The Indirect Effect of IRS Actions on Taxpayer Compliance."

1992 The IRS launched a major program to identify non-filers and return them to the tax system. Careful to avoid the label of amnesty, the IRS set up stations throughout the country to assist taxpayers who had not filed returns in bringing their accounts up-to-date.

1992 The Odgen Service Center began receiving equipment from the TMAC contract for its pilot of the Automated Underreporter (AUR) program.

1992 The National Office received a new telephone system, known as FTS (Federal Telephone System) 2000.

1992 The IRS began a study of its organizational structure with the possible goal of realigning the Service along functional lines. The overall effort was known as Core Business Systems.

1992 The IRS began testing joint electronic filing of state and federal individual tax returns.

1992 For the first time, taxpayers in the test state of Ohio could file the 1040EZ tax return over the telephone, under the name of TeleFile.

1992 The IRS tested a new, simple tax return, the 1040EZ-1, in Washington, Texas, and Rhode Island which allowed taxpayers to answer three basic questions and have the IRS figure their taxes for them. Also for the first time, the IRS accepted computer-generated answer sheets from taxpayers and tax practitioners in place of traditional tax returns under the "1040PC" program.

1992 For the first time, taxpayers who owed money could file their returns electronically.

1992 The IRS established the Office of Internal Communications.



# Appendix 1: Commissioners of Internal Revenue

George S. Boutwell  
*July 17, 1862-March 4, 1863*  
*Massachusetts*

Joseph J. Lewis  
*March 18, 1863-June 30, 1865*  
*Pennsylvania*

William Orton  
*July 1, 1865-October 31, 1865*  
*New York*

Edward A. Rollins  
*November 1, 1865-March 10, 1869*  
*New Hampshire*

Columbus Delano  
*March 11, 1869-October 31, 1870*  
*Ohio*

Alfred Pleasonton  
*January 3, 1871-August 8, 1871*  
*New York*

John W. Douglass  
*August 9, 1871-May 14, 1875*  
*Pennsylvania*

Daniel D. Pratt  
*May 15, 1875-July 31, 1876*  
*Indiana*

Green B. Raum  
*August 2, 1876-April 30, 1883*  
*Illinois*

Walter Evans  
*May 21, 1883-March 19, 1885*  
*Kentucky*

Joseph S. Miller  
*March 20, 1885-March 20, 1889*  
*West Virginia*

John W. Mason  
*March 21, 1889-April 18, 1893*  
*West Virginia*

Joseph S. Miller  
*April 19, 1893-November 26, 1896*  
*West Virginia*

W. St. John Forman  
*November 27, 1896-December 31, 1897*  
*Illinois*

Nathan B. Scott  
*January 1, 1898-February 18, 1899*  
*West Virginia*

George W. Wilson  
*March 1 1899-November 27, 1900*  
*Ohio*

John W. Yerkes  
*December 20, 1900-April 30, 1907*  
*Kentucky*

John G. Capers  
*June 5, 1907-August 31, 1909*  
*South Carolina*



Royal E. Cabell  
*September 1, 1909-April 27, 1913*  
*Virginia*

William H. Osborn  
*April 28, 1913-September 25, 1917*  
*North Carolina*

Daniel C. Roper  
*September 26, 1917-March 31, 1920*  
*South Carolina*

William M. Williams  
*April 1, 1920-April 11, 1921*  
*Alabama*

David H. Blair  
*May 27, 1921-May 31, 1929*  
*North Carolina*

Robert H. Lucas  
*June 1, 1929-August 15, 1930*  
*Kentucky*

David Burnet  
*August 20, 1930-May 15, 1933*  
*Ohio*

Guy T. Helvering  
*June 6, 1933-October 8, 1943*  
*Kansas*

Robert E. Hannegan  
*October 9, 1943-January 22, 1944*  
*Missouri*

Joseph D. Nunan, Jr.  
*March 1, 1944-June 30, 1947*  
*New York*

George J. Schoeneman  
*July 1, 1947-July 31, 1951*  
*Rhode Island*

John B. Dunlap  
*August 1, 1951-November 18, 1952*  
*Texas*

T. Coleman Andrews  
*February 4, 1953-October 31, 1955*  
*Virginia*

Russell C. Harrington  
*December 5, 1955-September 30, 1958*  
*Rhode Island*

Dana Latham  
*November 5, 1958-January 20, 1961*  
*California*

Mortimer M. Caplin  
*February 7, 1961-July 10, 1964*  
*Virginia*

Sheldon S. Cohen  
*January 25, 1965-January 20, 1969*  
*Maryland*

Randolph W. Thrower  
*April 1, 1969-June 22, 1971*  
*Georgia*

Johnnie M. Walters  
*August 6, 1971-April 30, 1973*  
*South Carolina*

Donald C. Alexander  
*May 25, 1973-February 26, 1977*  
*Ohio*

Jerome Kurtz  
*May 5, 1977-October 31, 1980*  
*Pennsylvania*

Roscoe L. Egger, Jr.  
*March 14, 1981-April 30, 1986*  
*Indiana*



Lawrence B. Gibbs  
*August 4, 1986-March 4, 1989*  
*Texas*

Fred T. Goldberg, Jr.  
*July 5, 1989-February 2, 1992*  
*Missouri*

Shirley D. Peterson  
*February 3, 1992-*  
*Colorado*



# Appendix 2: Chief Counsels of the Revenue Service

Walter H. Smith  
*March 1869-1871*  
*Ohio*

William McMichael  
*1871*  
*Pennsylvania*

Charles Chesley  
*October 1872-July 1, 1888*  
*New Hampshire*

Thomas J. Smith  
*1888-1890*  
*New Hampshire*

Alphonso Hart  
*1890-1893*  
*Ohio*

Robert T. Hough  
*1893-1897*  
*unknown*

George M. Thomas  
*1897-1901*  
*Kentucky*

Albert W. Wishard  
*1901-1903*  
*Indiana*

A. B. Hays  
*1903-1908*  
*Ohio*

Fletcher Maddox  
*1908-1913*  
*Montana*

Ellis C. Johnson  
*1913-1917*  
*Missouri*

A. A. Ballantine  
*January 1-December 31, 1918*  
*Ohio*

D. M. Kelleher  
*February 27-July 1, 1919*  
*unknown*

Robert Miller  
*July 28, 1919-February 29, 1920*  
*Kentucky*

Wayne Johnson  
*March 1-September 15, 1920*  
*Montana*

Carl A. Mapes  
*December 11, 1920-December 21, 1922*  
*Michigan*

Nelson T. Hartson  
*January 1, 1923-March 31, 1925*  
*Washington*





Alexander W. Gregg  
*April 1, 1925-October 10, 1927*  
*Texas*

Clarence M. Charest  
*October 11, 1927-June 12, 1933*  
*California*

E. Barrett Prettyman  
*June 13, 1933-March 4, 1934*  
*Virginia*

Robert H. Jackson  
*March 9, 1934-March 1, 1936*  
*Pennsylvania*

Morrison Shaforth  
*December 1, 1936-September 18, 1937*  
*Colorado*

John P. Wenchel  
*September 20, 1937-June 30, 1947*  
*Maryland*

Charles Oliphant  
*August 4, 1947-December 5, 1951*  
*Indiana*

Charles W. Davis  
*May 16, 1952-June 10, 1953*  
*Illinois*

Daniel A. Taylor  
*December 9, 1953-December 30, 1954*  
*Kentucky*

John Potts Barnes  
*June 9, 1955-January 18, 1957*  
*Alabama*

Nelson P. Rose  
*March 14, 1957-January 27, 1958*  
*Ohio*

Arch M. Cantrall  
*January 29, 1958-August 31, 1959*  
*Kentucky*

Hart H. Spiegel  
*September 21, 1959-January 20, 1961*  
*Arizona*

Crane C. Hauser  
*August 17, 1961-August 31, 1963*  
*New Jersey*

Sheldon S. Cohen  
*January 6, 1964-January 24, 1965*  
*Maryland*

Mitchell Rogovin  
*January 25, 1965-March 30, 1966*  
*New York*

Lester R. Uretz  
*April 12, 1966-January 20, 1969*  
*Illinois*

K. Martin Worthy  
*June 25, 1969-January 15, 1972*  
*Georgia*

Lee H. Henkel  
*June 12, 1972-April 16, 1973*  
*West Virginia*

Meade Whitaker  
*October 19, 1973-January 20, 1977*  
*District of Columbia*

Stuart E. Seigel  
*June 24, 1977-May 31, 1979*  
*New York*

N. Jerold Cohen  
*November 13, 1979-January 20, 1981*  
*Arkansas*



Kenneth W. Gideon  
*August 3, 1981-1984*  
*Texas*

Fred T. Goldberg, Jr  
*1984-1986*  
*Missouri*

William F. Nelson  
*July 29, 1986-November 1, 1988*  
*Mississippi*

Abraham N.M. Shashy  
*February 7, 1990-*  
*Texas*

*Note:* From 1869-1926, the Chief Counsel was known as the Solicitor of Internal Revenue. From 1926-1934, the position was known as the General Counsel for the Bureau of Internal Revenue. Since 1934, the position has been designated Chief Counsel of Internal Revenue.



# Appendix 3: Total Internal Revenue Collections by Year

<i>Year</i>	<i>Revenue Collected</i>	<i>Year</i>	<i>Revenue Collected</i>
1792	\$ 208,943	1868	\$ 190,374,926
1793	337,706	1869	159,124,127
1794	274,090	1870	184,302,828
1795	337,753	1871	143,198,322
1796	475,290	1872	130,890,097
1797	575,491	1873	113,504,013
1798	644,358	1874	102,191,016
1799	779,136	1875	110,071,515
1800	1,543,621	1876	116,768,096
1801	1,582,377	1877	118,549,230
1802-1813	no internal taxes	1878	110,654,163
1814	3,882,482	1879	113,449,621
1815	6,840,732	1880	123,981,916
1816	9,378,343	1881	135,229,912
1817	4,512,288	1882	146,523,273
1818	1,219,604	1883	144,553,345
1819-1862	no internal taxes	1884	121,590,040
1863	41,003,192	1885	112,421,121
1864	117,145,748	1886	116,902,869
1865	211,129,529	1887	118,837,301
1866	310,120,448	1888	124,326,475
1867	265,064,938	1889	130,894,434




<i>Year</i>	<i>Revenue Collected</i>	<i>Year</i>	<i>Revenue Collected</i>
1890	\$ 142,594,697	1919	\$ 3,850,150,079
1891	146,035,416	1920	5,407,580,252
1892	153,857,544	1921	4,595,357,062
1893	161,004,990	1922	3,197,451,083
1894	147,168,450	1923	2,621,745,228
1895	143,246,008	1924	2,796,179,257
1896	146,830,616	1925	2,584,140,268
1897	146,619,593	1926	2,835,999,892
1898	170,866,819	1927	2,865,683,130
1899	273,484,573	1928	2,790,535,538
1900	295,316,108	1929	2,939,054,375
1901	306,871,669	1930	3,040,145,733
1902	271,867,990	1931	2,428,228,754
1903	230,740,925	1932	1,557,729,043
1904	232,932,781	1933	1,619,839,224
1905	234,187,976	1934	2,300,816,309
1906	249,102,738	1935	2,773,213,214
1907	269,664,022	1936	3,448,571,174
1908	251,665,950	1937	4,653,195,315
1909	246,212,719	1938	5,658,765,314
1910	289,957,220	1939	5,181,573,953
1911	322,526,300	1940	5,340,452,347
1912	321,615,895	1941	7,370,108,378
1913	344,424,453	1942	13,047,868,517
1914	380,008,894	1943	22,371,386,496
1915	415,681,024	1944	40,121,760,232
1916	512,723,288	1945	43,800,387,575
1917	809,393,640	1946	40,672,096,998
1918	3,698,955,821	1947	39,108,385,742



<i>Year</i>	<i>Revenue Collected</i>	<i>Year</i>	<i>Revenue Collected</i>
1948	\$ 41,864,542,295	1970	\$ 195,722,096,497
1949	40,463,125,019	1971	191,647,198,138
1950	38,957,131,768	1972	209,855,736,878
1951	50,445,686,315	1973	237,787,204,058
1952	65,009,585,560	1974	268,952,253,663
1953	69,686,535,389	1975	293,822,725,772
1954	69,919,990,791	1976	302,519,791,922
1955	66,288,692,000	1977	358,139,416,730
1956	75,112,649,000	1978	399,776,389,362
1957	80,171,917,000	1979	460,412,185,013
1958	79,978,476,484	1980	519,375,273,361
1959	79,797,972,806	1981	606,799,120,630
1960	91,774,802,823	1982	632,240,505,595
1961	94,401,086,398	1983	627,246,792,581
1962	99,440,839,245	1984	680,475,229,000
1963	105,925,395,281	1985	742,871,541,000
1964	112,260,257,115	1986	782,251,812,000
1965	114,434,633,721	1987	886,290,590,000
1966	128,879,961,342	1988	935,106,594,000
1967	148,374,814,552	1989	1,013,322,133,000
1968	153,363,837,665	1990	1,056,365,652,000
1969	187,919,559,668	1991	1,086,851,401,000



# Appendix 4: Personnel\*



<i>Date</i>	<i>Number of Employees</i>	<i>Date</i>	<i>Number of Employees</i>
1866	4,461	1888	3,295
1867	4,808	1889	3,437
1868	5,393	1890	3,741
1869	6,258	1891	3,850
1870	6,266	1892	3,938
1871	6,321	1893	3,744
1872	6,141	1894	4,339
1873	5,136	1895	4,204
1874	4,784	1896	3,991
1875	4,657	1897	3,858
1876	5,184	1898	3,832
1877	3,983	1899	3,667
1878	3,729	1900	4,003
1879	3,609	1901	3,836
1880	3,405	1902	4,111
1881	3,405	1903	3,960
1882	4,002	1904	3,834
1883	4,341	1905	3,854
1884	4,126	1906	3,703
1885	3,581	1907	3,788
1886	3,292	1908	3,872
1887	3,389	1909	3,795

*\*Figures include both permanent and temporary employees*

<i>Date</i>	<i>Number of Employees</i>	<i>Date</i>	<i>Number of Employees</i>
1911	3,992	1940	22,423
1912	3,838	1941	27,230
1913	4,000	1942	29,065
1914	3,972	1943	36,338
1915	4,730	1944	46,171
1916	4,718	1945	49,814
1917	5,053	1946	59,693
1918	9,597	1947	52,830
1919	14,055	1948	52,143
1920	15,848	1949	52,266
1921	17,470	1950	55,551
1922	17,710	1951	57,805
1923	17,613	1952	56,309
1924	15,884	1953	53,463
1925	15,568	1954	51,411
1926	14,333	1955	50,890
1927	13,211	1956	50,682
1928	12,914	1957	51,364
1929	12,273	1956	50,816
1930	11,979	1959	51,226
1931	11,833	1960	51,047
1932	11,716	1961	53,206
1933	11,524	1962	56,481
1934	11,216	1963	59,711
1935	16,523	1964	61,059
1936	17,054	1965	62,098
1937	21,148	1966	63,508
1938	22,045	1967	65,946
1939	22,623	1968	67,574



<i>Date</i>	<i>Number of Employees</i>	<i>Date</i>	<i>Number of Employees</i>
1969	66,064	1981	86,860
1970	68,683	1982	83,756
1971	68,972	1983	84,196
1972	68,549	1984	88,208
1973	74,170	1985	92,792
1974	78,921	1986	96,395
1975	82,616	1987	102,774
1976	85,455	1988	115,494
1977	85,727	1989	115,360
1978	86,258	1990	112,987
1979	86,540	1991	117,017
1980	88,010		



# Appendix 5: Federal Income Tax Rates and Exemptions

Year	Exemptions Single	Joint	Dependents	Rates (%)	Taxable Income Brackets	
					Lowest Amount Under	Highest Amount Over
1861	-	-	-	3	\$ 800	
1862	-	-	-	3-5	600	\$ 10,000
1863	-	-	-	3-5	600	10,000
1864	-	-	-	5-10	600	10,000
1865	-	-	-	5-10	500	5,000
1866	-	-	-	5-10	500	5,000
1867	-	-	-	5	1,000	
1868	-	-	-	5	1,000	
1869	-	-	-	5	1,000	
1870	-	-	-	2.5	2,000	
1871	-	-	-	2.5	2,000	
1872	all Civil War era income taxes expired					
1873-1912	no income tax imposed					
1913	\$ 3,000	\$ 4,000	None	1-7	\$ 20,000	\$ 500,000
1914	3,000	4,000	None	1-7	20,000	500,000
1915	3,000	4,000	None	1-7	20,000	500,000
1916	3,000	4,000	None	2-15	20,000	2,000,000
1917	1,000	2,000	\$ 200	2-67	2,000	2,000,000
1918	1,000	2,000	200	6-77	4,000	1,000,000
1919	1,000	2,000	200	4-73	4,000	1,000,000
1920	1,000	2,000	200	4-73	4,000	1,000,000
1921	1,000	2,500	400	4-73	4,000	1,000,000



Year	Exemptions Single	Joint	Dependents	Rates (%)	Taxable Income Brackets	
					Lowest Amount Under	Highest Amount Over
1922	\$ 1,000	\$ 2,500	400	4-56	\$ 4,000	\$ 200,000
1923	1,000	2,500	400	3-56	4,000	200,000
1924	1,000	2,500	400	1.5-46	4,000	500,000
1925	1,500	3,500	400	1.125-25	4,000	100,000
1926	1,500	3,500	400	1.125-25	4,000	100,000
1927	1,500	3,500	400	1.125-25	4,000	100,000
1928	1,500	3,500	400	1.125-25	4,000	100,000
1929	1,500	3,500	400	.375-24	4,000	100,000
1930	1,500	3,500	400	1.125-25	4,000	100,000
1931	1,500	3,500	400	1.125-25	4,000	100,000
1932	1,000	2,500	400	4-63	4,000	1,000,000
1933	1,000	2,500	400	4-63	4,000	1,000,000
1934	1,000	2,500	400	4-63	4,000	1,000,000
1935	1,000	2,500	400	4-63	4,000	1,000,000
1936	1,000	2,500	400	4-79	4,000	5,000,000
1937	1,000	2,500	400	4-79	4,000	5,000,000
1938	1,000	2,500	400	4-79	4,000	5,000,000
1939	1,000	2,500	400	4-79	4,000	5,000,000
1940	800	2,000	400	4.4-81.1	4,000	5,000,000
1941	750	1,500	400	10-81	2,000	5,000,000
1942	500	1,200	350	19-88	2,000	200,000
1943	500	1,200	350	19-88	2,000	200,000
1944	500	1,000	500	23-94	2,000	200,000
1945	500	1,000	500	23-94	2,000	200,000
1946	500	1,000	500	19-86.45	2,000	200,000
1947	500	1,000	500	19-86.45	2,000	200,000
1948	600	1,200	600	16.6-82.13	2,000	200,000
1949	600	1,200	600	16.6-82.13	2,000	200,000





<i>Year</i>	<i>Exemptions Single</i>	<i>Joint</i>	<i>Dependents</i>	<i>Rates (%)</i>	<i>Taxable Income Brackets</i>	
					<i>Lowest Amount Under</i>	<i>Highest Amount Over</i>
1950	\$ 600	\$1,200	600	17.4-84.36	\$ 2,000	\$ 200,000
1951	600	1,200	600	17.4-84.36	2,000	200,000
1952	600	1,200	600	20.4-91	2,000	200,000
1953	600	1,200	600	20.4-91	2,000	200,000
1954	600	1,200	600	20-91	2,000	200,000
1955	600	1,200	600	20-91	2,000	200,000
1956	600	1,200	600	20-91	2,000	200,000
1957	600	1,200	600	20-91	2,000	200,000
1958	600	1,200	600	20-91	2,000	200,000
1959	600	1,200	600	20-91	2,000	200,000
1960	600	1,200	600	20-91	2,000	200,000
1961	600	1,200	600	20-91	2,000	200,000
1962	600	1,200	600	20-91	2,000	200,000
1963	600	1,200	600	20-91	2,000	200,000
1964	600	1,200	600	16-77	500	100,000
1965	600	1,200	600	14-70	500	100,000
1966	600	1,200	600	14-70	500	100,000
1967	600	1,200	600	14-70	500	100,000
1968	600	1,200	600	14-75.25	500	100,000
1969	600	1,200	600	14-77	500	100,000
1970	625	1,250	625	14-71.75	500	100,000
1971	675	1,350	675	14-70	500	100,000
1972	750	1,500	750	14-70	500	100,000
1973	750	1,500	750	14-70	500	100,000
1974	750	1,500	750	14-70	500	100,000
1975	750	1,500	750	14-70	500	100,000
1976	750	1,500	750	14-70	500	100,000
1977	750	1,500	750	0-70	3,200	203,200



<i>Year</i>	<i>Exemptions Single</i>	<i>Joint</i>	<i>Dependents</i>	<i>Rates (%)</i>	<i>Taxable Income Brackets</i>	
					<i>Lowest Amount Under</i>	<i>Highest Amount Over</i>
1978	\$ 750	\$ 1,500	750	0-70	\$ 3,200	\$ 203,200
1979	1,000	2,000	1,000	0-70	3,400	215,400
1980	1,000	2,000	1,000	0-70	3,400	215,400
1981	1,000	2,000	1,000	0-70	3,400	215,400
1982	1,000	2,000	1,000	0-50	3,400	85,600
1983	1,000	2,000	1,000	0-50	3,400	109,400
1984	1,000	2,000	1,000	0-50	3,400	162,400
1985	1,040	2,080	1,040	0-50	3,540	169,020
1986	1,080	2,160	1,080	0-50	3,670	175,250
1987	1,900	3,800	1,900	11-38.5	3,000	90,000
1988	1,950	3,900	1,950	15-33	29,750	71,900 *
1989	2,000	4,000	2,000	15-33	30,950	74,850 *
1990	2,050	4,100	2,050	15-33	32,450	78,400 *
1991	2,150	4,300	2,150	15-31	34,000	82,150 *

*\*Based on Married Filing Jointly filing status*

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